



30 August 2012

To: Company Announcement Office  
ASX Limited

**STRAITS RESOURCES LIMITED**  
**Appendix 4E – Preliminary Final Report, Annual Report and Annual General Meeting**

Please find attached Appendix 4E – Preliminary Final Report and the Straits Resources Limited 2012 Annual Report.

It is anticipated that the hard copy version of the Annual Report and the Notice of Annual General Meeting and Explanatory Statement will be sent to shareholders on 29 October 2012.

Straits Resources Limited will hold its 2012 Annual General Meeting on Thursday, 29 November 2012 at 10:30am (WST) at the Park Business Centre, 45 Ventnor Avenue, West Perth, Western Australia.

**Straits Resources Limited**

A handwritten signature in black ink, appearing to read 'Matthew Smith'.

Matthew Smith  
Acting CFO & Company Secretary

**STRAITS RESOURCES LIMITED**

ABN 30 147 131 977

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# Appendix 4E – Straits Resources Limited

For the year ended 30 June 2012

## Results for Announcement to the Market

|                                                                                                  |                                            |      |                                            |                          |
|--------------------------------------------------------------------------------------------------|--------------------------------------------|------|--------------------------------------------|--------------------------|
| <b>Revenue</b> from ordinary activities continuing operations<br>(Appendix 4E item 2.1)          | up                                         | 204% | to                                         | <b>\$'000</b><br>253,800 |
| <b>Loss</b> from ordinary activities after tax attributable to members<br>(Appendix 4E item 2.2) | down                                       | 732% | to                                         | 139,224                  |
| <b>Net loss</b> for the period attributable to members<br>(Appendix 4E item 2.3)                 | down                                       | 732% | to                                         | 139,224                  |
| <b>Dividends / distributions</b><br>(Appendix 4E item 2.4)                                       | Unfranked amount per security (cents) 2012 |      | Unfranked amount per security (cents) 2011 |                          |
| There were no final dividends paid                                                               | -                                          |      | -                                          |                          |
| There were no interim dividends paid                                                             | -                                          |      | -                                          |                          |
| <b>Key Ratios</b>                                                                                | <b>12 months to June 2012</b>              |      | 5 months to June 2011                      |                          |
| Basic earnings per share (cents)                                                                 | (38.2)                                     |      | (5.9)                                      |                          |
| Diluted earnings per share (cents)                                                               | (38.2)                                     |      | (5.9)                                      |                          |
| Net tangible assets per share (dollars)                                                          | 0.22                                       |      | 0.53                                       |                          |

The directors did not declare a dividend in either of the period ending 30 June 2012 and 30 June 2011.



**FOCUSING ON OUR  
STRATEGY**

**STRAITS RESOURCES  
LIMITED**

**A.C.N. 147 131 977**

**ANNUAL REPORT  
30 JUNE 2012**

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## **Annual General Meeting**

The Annual General Meeting of Straits Resources Limited will be held at 10:30 am on 29th November 2012 at the Park Business Centre, 45 Ventnor Avenue, West Perth, Western Australia.

## Focusing on our STRATEGY

### Copper Gold

Straits continues to focus on maximizing the return from our developing copper and gold mines and creating new value through exploration success. We have made progress in a challenging year for the company, with delays in the production ramp up at Mt Muro. We now believe Mt Muro will achieve its target annualised production rate of 100,000oz AuEq in December 2012.

Tritton had a consistent year having established a strong production base for the long term. We are confident of maintaining a minimum 25,000 tonnes production rate for the mine.

The aim of our exploration has been to add value at both Tritton and Mt Muro. At Tritton we focused on a number of exciting regional targets including a new high-grade lens at Avoca Tank close to Tritton's processing plant. This is a significant copper discovery with the potential to increase production and reduce our costs at Tritton. At the same time our tenements in New South Wales and South Australia have shown promise, with a large increase announced in the copper and gold resource at Temora.

At Mt Muro we have discovered the greatest immediate potential is around the vein systems under the old pits. These systems are large and have the potential to sustain the operation over the longer term.

Beyond this year's challenges Straits remains well positioned for the future in our base and precious metals businesses.

## Financial AND OTHER INFORMATION

|                                                                            |         | 12 months to<br>30 June 2012 | 5 months to<br>30 June 2011* |
|----------------------------------------------------------------------------|---------|------------------------------|------------------------------|
| <b>Profitability</b>                                                       |         |                              |                              |
| Mining revenue                                                             | \$'000  | 250,455                      | 121,911                      |
| Total Sales Revenue                                                        | \$'000  | 250,455                      | 163,646                      |
|                                                                            |         |                              |                              |
| Operating loss after tax                                                   | \$'000  | (139,204)                    | (19,044)                     |
| Earnings profit/(loss) per share<br>(undiluted) from continuing operations | Cents   | (38.2)                       | (5.1)                        |
| <b>Cash Flow</b>                                                           |         |                              |                              |
| Cash outflow from operations                                               | \$'000  | (36,855)                     | (550)                        |
| <b>Balance Sheet</b>                                                       |         |                              |                              |
| Total shareholders' equity                                                 | \$'000  | 127,244                      | 204,409                      |
| Net tangible asset backing per share                                       | \$0     | 0.22                         | 0.53                         |
| <b>Ratios</b>                                                              |         |                              |                              |
| Return on shareholders' funds                                              | %       | (109.4)                      | (9.3)                        |
| Gearing                                                                    | %       | 55.4                         | 9.2                          |
| <b>Market Capitalisation</b>                                               |         |                              |                              |
| Share price at 30 June                                                     | \$      | 0.365                        | 0.80                         |
| Shares on issue (fully paid)                                               | Million | 456.5                        | 324.7                        |
| Market capitalisation                                                      | \$'M    | 166.6                        | 260.0                        |

\*Note: This represents the reporting period commencing from Demerger on 1 February 2011.

# Focussing on our STRATEGY

## CHAIRMAN'S STATEMENT

Dear Shareholder,

Straits is exclusively focused on creating value from our copper and gold mines and exploration. 2012 has been a challenging year for the company, with production ramp up delays at Mt Muro resulting in shortfalls in targeted production and revenue for the Group. These delays have come at a time of continued uncertainty and weakness in the global financial environment. We now believe that plans are in place such that Mt Muro is targeting to achieve production in FY2013 of 90,000 to 110,000oz AuEq.

Tritton had a consistent production year continuing to establish a strong base from which to achieve sustainable production rates over the longer term. Importantly the very significant high grade copper discovery at Avoca Tank is expected to underpin future production and life of mine increases, as well as reducing the operation's cost base over the medium term.

In 2011 we invested in a complete reoptimisation of our Tritton operations, including a change in mining method, the construction of a pastefill plant to increase extraction rates and a move to become an owner operated site. We have brought in new underground mining equipment to increase efficiency and are now starting to see the benefits of this investment in terms of stable production. In the twelve months to December 2011 we achieved an annualized production rate of 25,000 tonnes of copper and in the 12 months to June 2012 production was 23,962 tonnes of copper in concentrate (including cement), in line with the previous year. We are confident of maintaining a minimum production rate of 25,000tpa for the mine. The previous concentrate off take agreement was bought out in late 2011 and from January 2012 Tritton received market related treatment and refining terms.

Exploration moved from reserve definition drilling at Tritton to focus on a number of exciting near mine, targets in the Tritton exploration areas. In late 2011 we discovered a new high grade lens at the Avoca Tank prospect approximately 2 kilometres from Tritton's north-east decline and 25 kilometres from the Tritton processing plant. This is a significant copper discovery, which has the potential to be a future high grade incremental feed for the Tritton plant, enabling increased copper production and reduced costs.

Mt Muro produced 33,674 Au equivalent ounces in the 12 months to June 2012. The production ramp up was behind schedule in FY2012, due to a number of factors including negative grade reconciliation between the ore reserve and mine models, and dilution as the open pit moved down through the remnant mining areas. Considerable work has been undertaken to improve mining and planning processes at Mt Muro and in July and August 2012 grade reconciliations were in line with forecast and the mine is targeting to achieve production in FY2013 of 90,000 to 110,000oz AuEq.

Mt Muro has adequate installed capital to handle large production volumes. Initial pit modelling indicates that the mine has the potential to increase production significantly over the next two to three years. Historically, the operation has previously successfully reached production rates in excess of 200,000 ounces of gold equivalent per annum. We have discovered the greatest immediate potential is around the vein systems under the old pits. These systems are large and remain "open pitable" to substantial depth with excellent underground potential after this.

The key focus of exploration at both Tritton and Mt Muro has been to add value near the existing operations through the conversion of known resources to reserves in addition to the identification of new untested geological potential. At Tritton exploration commenced on the wider regional tenement holdings in FY2012 and quickly resulted in a major new discovery at Avoca Tank. This is a significant discovery which, by year end, had been drilled to a vertical depth of approximately 400 metres with mineralisation remaining open at depth. Regionally a number of excellent geological targets with the potential for Avoca Tank type discoveries remain to be tested as part of the ongoing exploration programme. Continuing this positive trend, a new ore grade intersection was recently made at the Kurrajong prospect near Tritton.

Our tenements in New South Wales away from Tritton have demonstrated an extensive low-grade copper and gold mineralised system at our Temora Project. A new resource was calculated for Temora in 2012. Separately, Straits has recently entered into "earn in" exploration JV's at the Currumburrama project with Sandfire Resources and on the Blayney and Cheeseman Creek tenements in NSW with Gold Fields.

In South Australia, we are involved in joint ventures with two companies and are also exploring tenements in our own right. At the Torrens project we are working to resolve the issues around starting an exploration programme.

The company undertook two equity raisings during the year to restructure the loan and offtake arrangements at Tritton, to provide funds for exploration, to fund the ramp-up at Mt Muro and provide working capital to support the Company's operations. Unfortunately, due to the operational issues mentioned earlier, Mt Muro requires further capital to complete the ramp-up. In August 2012, Investec Bank (Australia) Limited was appointed to review the strategic options available to the Company to strengthen its capital structure and identify opportunities to maximize value for Straits' shareholders. This work is well advanced with a number of proposals to address the Company's funding requirements having been received.

The US continues to slowly recover, however financial uncertainty remains significant and the debt positions of a number of European Union countries cast a shadow over the potential for any short-term recovery in global growth. As highlighted last year we continue to be well positioned for a range of outcomes through our exposure to copper, gold and silver.

A handwritten signature in black ink, appearing to read 'A. Good'.

Alan Good  
Chairman  
30 August 2012

# Developing our **CORE ASSETS**

## **CHIEF EXECUTIVE OFFICER'S REVIEW**

### **Background**

Straits as a company is now exclusively focused on unlocking value in our copper and gold production and exploration.

We have two operating mines – the Tritton copper mine in New South Wales and the Mt Muro gold mine in Indonesia. We believe both have excellent exploration and production upside, as a result of on-going investment programs designed to unlock value in both operations and realise the full potential of these mines. Tritton is well positioned to maintain a baseline, sustainable production rate of 25,000 tpa copper in concentrate. In addition, the Avoca Tank discovery in late 2011 provides the potential to increase production, mine life, and reduce costs.

Waste stripping at Mt Muro is behind schedule but close to finalization with a plan now re-established which is targeting to achieve production in FY2013 of 90,000 to 110,000oz AuEq. The mine has a minimum reserve mine life of 6 years at a plus 100,000 oz AuEq production rate and resources to support operations well beyond ten years.

The company also has an excellent portfolio of exploration assets, including gold and porphyry copper/gold tenements in New South Wales and a number of exploration projects in South Australia targeting iron-oxide-copper-gold (IOCG) deposits.

### **Operations**

Production from the Tritton copper mine totalled 23,962 tonnes of copper in concentrate and cement for the twelve month period to 30 June 2012. Cash costs were US\$2.35 per pound. Tritton moved to owner-operator and continued to stabilize production at the 25,000 tonnes annualised rate for most of the year. Electrical substation failures in March 2012 were responsible for the mine not achieving this rate for the full year. Tritton should maintain this rate as a baseline moving forward. The previous onerous off take agreement was bought out and replaced by a four and a half year debt facility in the form of a copper swap. A reserve definition drilling programme was completed in FY 2012 to underpin buying out this contract. The future of Tritton is enhanced by the discovery of the high grade Avoca Tank deposit in 2011.

In FY 2012 Mt Muro continued with a significant re-capitalisation plan around the redevelopment of the Serujan open pit. Mt Muro produced a total of 33,674oz AuEq for the year. Production fell short of forecast for a number of reasons including supply disruptions, waste stripping not exposing sufficient ore, ore dilution and poor reconciliation between the reserve, grade control and mine models in the upper levels of the Serujan pit.

The exploration focus within the Group will continue in FY2013 with drill programmes planned at Tritton concentrating on Avoca Tank, Kurrajong and other targets close to the Tritton Mine.

### **Financial Performance**

The Group recorded a loss before minorities and after tax to 30 June 2012 of \$139.2 million. The strengthening of the Australian dollar during the period, production falling below target at both Mt Muro and Tritton were the main factors impacting this financial result.

### **Outlook**

Straits is positioned to meet its targets at both Tritton and Mt Muro in the current financial year. Tritton is established around the 25,000 tonnes copper production rate and will focus on cost reduction in the current period. Mt Muro is targeted to achieve produce 90,000 to 110,000oz AuEq in FY2013.



Milan Jerkovic  
Chief Executive Officer  
30 August 2012

# Review of Operations and Activities

## Financial Results

The Group recorded a loss before minorities and after tax for the financial reporting period to 30 June 2012 of \$139.2 million compared with a loss before minorities and after tax for the 5-month period to 30 June 2011 of \$19.0 million.

The June 2012 financial result for the Group was impacted by a number of key factors, including:

- The Sempra offtake agreement buyout of \$105.6 million; and
- A mark to market valuation reduction of held for trading investments of \$12.3 million.

Additionally, the Directors have determined in accordance with AASB 112 Income Taxes the financial result for the period will not give rise to a taxable profit. The financial period movement in deferred tax assets for temporary differences and unused tax losses and the associated income tax benefit of \$41.6 million have not been recognised.

| <b>Sales Revenue</b>                        | <b>Financial Year<br/>30 June 2012<br/>\$m</b> | <b>Five Months to<br/>30 June 2011<br/>\$m</b> |
|---------------------------------------------|------------------------------------------------|------------------------------------------------|
| Base metals - Tritton                       | 196.2                                          | 104.3                                          |
| Precious metals - Mt Muro                   | 54.2                                           | 17.6                                           |
| <b>Sales revenue from mining activities</b> | <b>250.4</b>                                   | <b>121.9</b>                                   |
| Revenue from discontinued operations        | -                                              | 41.7                                           |
| <b>Total sales revenue</b>                  | <b>250.4</b>                                   | <b>163.6</b>                                   |

Adjusted earnings before interest, tax, depreciation and amortisation (Adjusted EBITDA) amounted to \$3.2 million, made up of the following:

| <b>Adjusted EBITDA</b>                             | <b>Financial Year<br/>30 June 2012<br/>\$m</b> | <b>Five Months to<br/>30 June 2011<br/>\$m</b> |
|----------------------------------------------------|------------------------------------------------|------------------------------------------------|
| Base metals – Tritton (including hedges)           | 26.8                                           | 1.7                                            |
| Precious metals - Mt Muro                          | 3.2                                            | 0.9                                            |
| FX gains/(losses)                                  | 2.6                                            | (1.1)                                          |
| Net loss on Investments held for trading           | (11.4)                                         | (3.9)                                          |
| Administration and support                         | (12.7)                                         | (3.6)                                          |
| Other items                                        | (2.0)                                          | (3.4)                                          |
| <b>Total Adjusted EBITDA continuing operations</b> | <b>6.5</b>                                     | <b>(9.4)</b>                                   |
| Loss from discontinued operations                  | (3.3)                                          | (0.6)                                          |
| <b>TOTAL Adjusted EBITDA</b>                       | <b>3.2</b>                                     | <b>(10.0)</b>                                  |

Refer to the segment note (44(c)) contained within the Financial Statements for a reconciliation of Adjusted EBITDA from continuing operations to loss before tax from continuing operations.

The net loss for the period is inclusive of the following:

| Profit/(loss)                        | Financial Year<br>30 June 2012<br>\$m | Five Months to<br>30 June 2011<br>\$m |
|--------------------------------------|---------------------------------------|---------------------------------------|
| Tritton                              | (66.5)                                | (4.8)                                 |
| Mt Muro                              | (4.1)                                 | (0.4)                                 |
| FX gains/(losses)                    | 2.6                                   | (1.1)                                 |
| Loss on Investments held for trading | (11.4)                                | (3.9)                                 |
| Administration and support           | (12.7)                                | (3.6)                                 |
| Other items                          | (44.6)                                | (2.7)                                 |
| <b>Loss from ongoing activities</b>  | <b>(136.7)</b>                        | <b>(16.5)</b>                         |
| Loss from discontinued operations    | (2.5)                                 | (2.5)                                 |
| <b>Total Loss</b>                    | <b>(139.2)</b>                        | <b>(19.0)</b>                         |

### Financial Position

The Group's net asset position at 30 June 2012 was \$127.2 million including net assets of \$10.0 million for Hillgrove classified as held for sale.

Net tangible asset backing per ordinary share at 30 June 2012 is \$0.22.

At 30 June 2012, Straits' cash and investments included cash \$13.0 million, investments \$13.4 million and \$21.5 million of restricted cash.

The Group's net cash outflow from operating activities during the period was \$36.9 million with net cash outflows from investing activities of \$120.6 million and net cash inflows from financing activities of \$130.4m. Foreign exchange revaluations amounted to \$3.3 million on cash and cash equivalents.

## Base Metals

### TRITTON COPPER

#### Production

The financial year 2012 has been one of consolidation and discovery at Tritton.

During the year the off take agreement that was constraining revenue was restructured, enabling market treatment and refining charges to be realized for the second half of the financial year. In addition the transition to full owner operator was completed, and the site management team engaged with an external consultant to assist in driving productivity increases.

The site also saw the exciting discoveries at Avoca Tank and the Kurrajong complex, both with the potential to significantly increase the mine's throughput and life. The site also saw near mine extension of the North East mining area, extending the life of that existing operating underground mine.

The site saw two major disruptions over the period, a blockage of the paste line in the first quarter, and a large rain event with separate electrical failures underground in the third quarter.

These events constrained total production to 23,962 tonnes of copper in concentrate and cement over the 12 month period, with most months producing at above a 25,000 tonnes per annum rate.

The productivity increases seen on the site are expected to yield further cost improvement in FY2013, as well as further improvements in the treatment and refining charges achieved via open negotiation.

Production for the period was:

| PRODUCTION STATISTICS – TRITTON |               |               |               |
|---------------------------------|---------------|---------------|---------------|
|                                 | Units         | FY2012        | FY 2011       |
| Development                     | Metres        | 6,068         | 8,178         |
| Mined                           | tonnes        | 1,260,656     | 1,160,476     |
| Grade                           | % Cu          | 1.96%         | 2.11%         |
| Milled                          | tonnes        | 1,254,355     | 1,163,732     |
| Grade                           | % Cu          | 1.96%         | 2.11%         |
| Recovery                        | %             | 94.84%        | 95.09%        |
| <b>Cu Concentrate</b>           | <b>tonnes</b> | <b>93,580</b> | <b>94,483</b> |
| <b>Cu Grade</b>                 | <b>%</b>      | <b>25%</b>    | <b>25%</b>    |
| <b>Cu in concentrate</b>        | <b>tonnes</b> | <b>23,374</b> | <b>23,354</b> |
| <b>Cu Cement</b>                | <b>tonnes</b> | <b>587</b>    | <b>582</b>    |
| <b>Total Cu Produced</b>        | <b>tonnes</b> | <b>23,962</b> | <b>23,936</b> |

#### Outlook

Straits has seen the Tritton region confirm its significant geological potential, and continues to be positive about the long term growth potential of the Tritton Mines complex. The operation is targeting to produce 25,000 tonnes of copper in FY2013.

The strong focus on near-mine and regional exploration to prove up additional copper resources has yielded results at Avoca Tank and Kurrajong and will continue.

### HILLGROVE

Straits announced on 8 May 2012 that the previously agreed process with Emu Nickel NL had finished as they had failed to raise the required amount from the markets under the agreement.

As a result Straits has been approached by several other interested parties and is currently in discussions about a possible sale.

## Precious Metals

### MT MURO GOLD

#### Production

During 2012 Mt Muro continued the significant redevelopment of the Serujan open pit. Waste movement ramped successfully to the target level of 1 Mbcm per month rate, with the processing plant easily matching the ore produced from the pit.

The mine plan was adjusted in the second quarter to increase the waste stripping to allow access to additional reserves at depth. The planned ore mined was of a lower grade than expected, particularly the silver grade. This was due to a combination of factors including remnant pit mining, increased bulk mining practices and resource modelling of the higher level oxidised and leached material.

The result of these changes, together with the impact of various supply and mining disruptions, were that production was significantly less than planned, particularly in the final quarter of the financial year and totalled 23,160 Au oz and 529,130 Ag oz.

In the second quarter of the financial year Straits received a US\$50 million upfront payment from Credit Suisse in return for delivering a total of 1.96 million ounces of silver to Credit Suisse over a three year period from January 2012. The facility included a mandatory hedging requirement for approximately 75,000 ounces gold over the term of the facility.

#### Outlook

Straits remains committed to the production and recapitalisation plan for Mt Muro. The production target for the September 2012 quarter is 14,000-16,000oz AuEq. The operation is now aiming to be cash flow positive at the operating level (after capital expenditure) in December 2012. The targeted production for FY2013 is 90,000 to 110,000oz AuEq.

#### Production

Production for the period was:

| PRODUCTION STATISTICS - MT MURO |              |                |                |
|---------------------------------|--------------|----------------|----------------|
|                                 | Units        | FY2012         | FY 2011        |
| Overburden movement             | Bcm          | 9,810,635      | 3,833,191      |
| Ore Milled                      | tonnes       | 653,409        | 325,035        |
| Grade – Gold                    | g/t Au       | 1.18           | 2.5            |
| – Silver                        | g/t Ag       | 34.4           | 28.9           |
| Recovery – Gold                 | % Au         | 93.4%          | 92.6%          |
| – Silver                        | % Ag         | 72.5%          | 72.9%          |
| <b>Production (Gold)**</b>      | <b>oz Au</b> | <b>23,160</b>  | <b>25,022</b>  |
| <b>(Silver)</b>                 | <b>oz Ag</b> | <b>529,130</b> | <b>228,502</b> |
| <b>Gold Sold</b>                | <b>oz Au</b> | <b>23,950</b>  | <b>25,911</b>  |
| <b>Silver Sold</b>              | <b>Ag oz</b> | <b>528,886</b> | <b>189,337</b> |

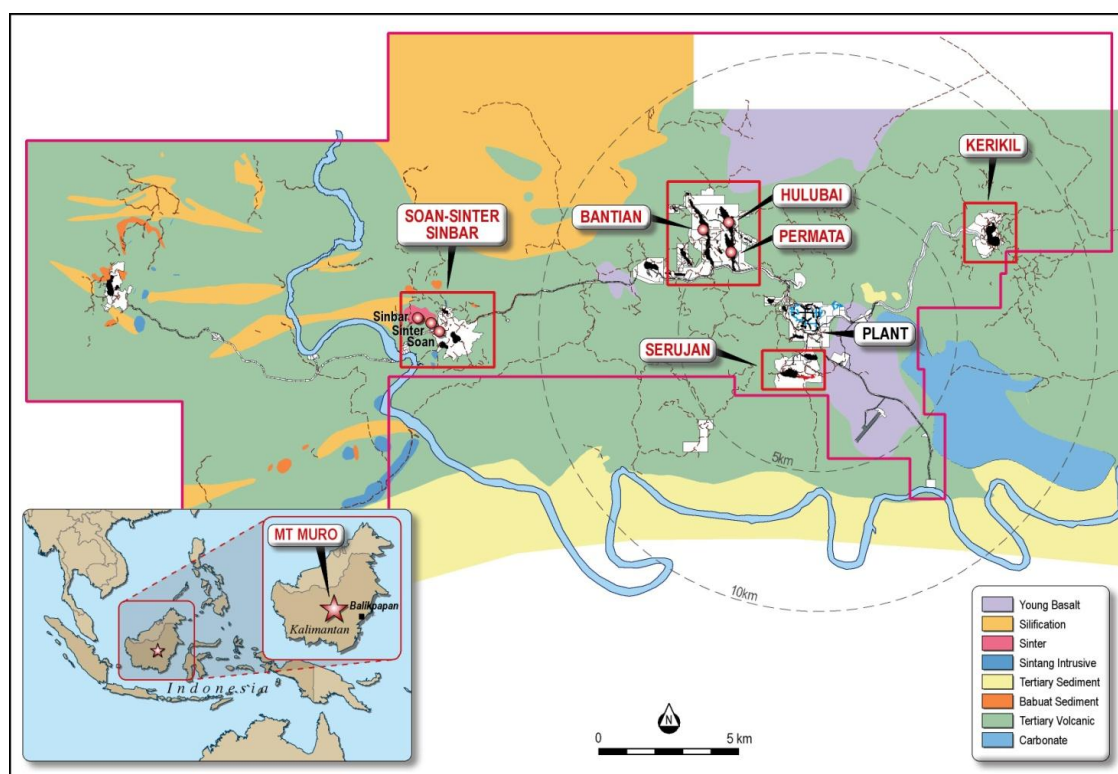
## EXPLORATION

During the 2012 financial year substantial exploration programmes were undertaken at the Tritton and Mt Muro Mine sites. At both operations the key focus for exploration has been to add value near the existing operations through the discovery of new resources and through the conversion of known resources to reserves. The key driver for the exploration programmes at our existing sites is to build on the geological knowledge and installed processing infrastructure in order to maximise shareholder value. During the year a number of resources upgrades have been made and further upgrades are expected in the near future.

Straits is actively exploring for Copper and Copper/Gold in its own right for large porphyry targets in the Lachlan Fold Belt of New South Wales and for iron oxide copper gold (IOCG) deposits in South Australia.

### Mt Muro, Kalimantan Indonesia

The Mt Muro mine is located in central Kalimantan, Indonesia (map below including project areas). The epithermal systems being mined are high level, low sulphidation Au-Ag vein systems. The veins and mineralised breccias are dominated by well-developed crustiform to locally colloform banding, interspersed with periodic episodes of vein brecciation. Later stages of deposition in open spaces and fractures include quartz, amethystine, kaolinite and calcite. Typical alteration products include pyrite, illite, chlorite, montmorillonite, carbonate and epidote. Evidence of high level deposition includes carbonized trees and mineralized sediments. Host rocks are dominated by andesite to andesitic breccias. A footwall basalt unit is common for most deposits and in the case of Serujan a late shallow basalt flow has preserved the vein system at the eastern end of the current pit.



The Mt Muro Contract or Work (CoW) area is a well-endowed mineral field whose production has exceeded 2.7 million ounces of gold equivalent, mostly from less than 100 metres depth. The five main gold bearing structures hosting the Permata, Hulubai, Bantian, Serujan and Kerikil pits have a cumulative strike length in excess of 10 km which in many instances remains open at shallow depths with robust grade.

The major Mt Muro vein systems have the potential to host significant additional epithermal gold and silver formed by multiple events below the existing pits to depths of at least 500 metres vertical. Even after 20 years of activity significant exploration potential exists on the Mt Muro Contract of Work, which remains one of the most fertile gold exploration terrains in Indonesia.

## New South Wales

### Tritton

Straits reinitiated its regional exploration program in 2011, based on a comprehensive review and reinterpretation of data, collated over a 20 year period, encompassing the region around the Tritton operation. Recent geological reinterpretations and geophysical surveys undertaken by Straits have provided improved target definition with an emphasis placed on identifying co-incident geophysical and geochemical anomalies to define potential mafic host horizons, magnetite alteration and sulphide mineralisation.

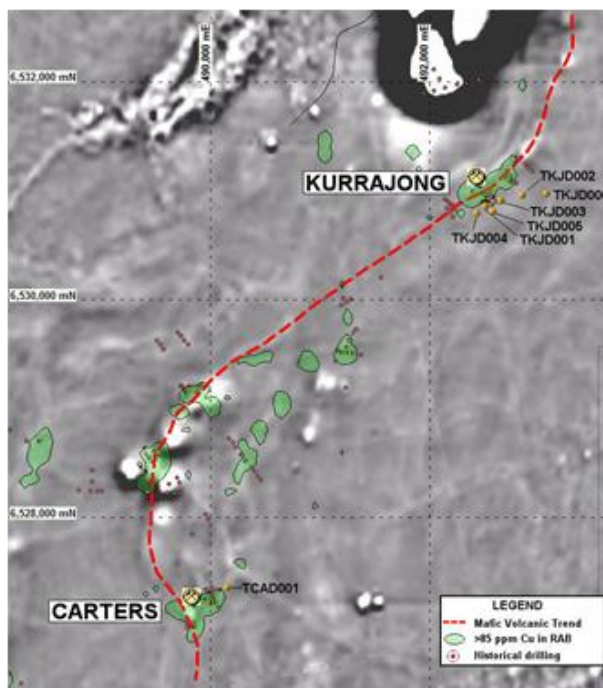
The programme to date has identified 13 high priority targets. The first target to be drilled under the program was Avoca Tanks, which yielded high grade mineralisation (refer ASX announcements dated 15 August 2011 and 26 August 2011).

The Tritton region has in excess of 50 million tonnes of known sulphide and oxide mineralised VMS systems; these are in all cases associated with or are in close proximity to mafic complexes. This significant copper metal endowment +755Kt of contained copper (both mined and known resources) in conjunction with the size of the mineralised systems would rank the Tritton region as a major VMS field on a global scale for this type of mineralisation (VMS - very large deposits; 50 to 100Mt from Hannington et al., 1999).

Straits currently hold 177,000 hectares in the prospective Tritton VMS region. This is made up of four granted Exploration and three Mining leases. Six major mafic complexes have been identified within a sequence of sedimentary rocks with a strike length in excess of 100 km.

The quality of the remaining targets in the Tritton “Besshi VMS” region is considerable and the potential for further discoveries in this large mineralised district is excellent. Straits continuing success allied with the knowledge that Besshi VMS systems are often characterised by repeats along strike, multiple horizons and lenses and the significant depth potential gives the Company great confidence for the discovery of additional deposits within the Tritton region.

The exploration strategy is steadily evolving and to date has been extremely effective in both identifying and testing for VMS sulphide systems as shown by the exploration success to date at Avoca Tank, Kurrajong, Carters and Budgery.



1VD Greyscale airborne magnetics overlain by RAB geochemistry and drillhole and prospect locations.

## **Hillgrove**

Exploration activities at Hillgrove have been limited to definition and near mine exploration of the Metz mining center, focused on the Syndicate, Black Lode and Cox's Lode deposits.

## **Temora (EL 6845) / Gidgingbung (EL 5864)**

The Temora and Gidgingbung tenements are situated between the towns of Temora and West Wylong in Central New South Wales. These exploration tenements are situated in the highly prospective Lachlan Fold Belt of New South Wales. The tenements contain a range of projects targeting gold and copper-gold mineralisation. At Temora a significant copper-gold resource has been defined over a number of years (latest update ASX release 2 March 2012). During the 2012 drill season work was aimed at expanding the known resource envelope in addition to finding higher grade portions of the mineralised systems.

## **Blayney (EL 5922) JV with Gold Fields, right to earn up to 80%**

Gold Fields has the right to earn up to 80% of the project by sole funding \$25 million in exploration expenditure over twelve years with the following principal terms:

1. Gold Fields may earn a 60% interest by sole funding \$10 million on exploration in respect to the tenement within a period of six years;
2. After earning the minimum interest, Gold Fields may elect to continue to sole fund (a further \$15 million) and earn an additional 20% within a period of a further six years; and
3. Each earn in point crystallises a payment to Straits for the resources already discovered at Blayney. The existing JORC resource on the Project is approximately 1 million troy ounces of gold. To recognise the value of the existing resource, Gold Fields will make a payment to Straits based on the existing resource as part of exercising the 60% and 20% options. For the purposes of the 60% option, the payment is calculated as follows: crystallisation payment =  $0.6 \times (\text{existing resource} \times \$5)$ . For the purposes of the 20% option, the payment is calculated as follows: crystallisation payment =  $0.2 \times (\text{existing resource} \times \$5)$ .

The Blayney Project is located 35km south of Orange, NSW and covers the eastern margin of the Forest Reef Volcanics within the Lachlan Fold Belt. The area which is close to the Cadia and Ridgeway gold deposits of Newcrest Mining Ltd is considered one of the most prospective geological environments for porphyry related gold-copper mineralization.

## **Cheesemans Creek (EL 5979 & 7321) JV with Gold Fields, right to earn up to 80%**

Gold Fields has the right to earn up to 80% of the project by sole funding \$14 million in exploration expenditure over eight years with the following principal terms:

1. Gold Fields may earn a 60% interest by sole funding \$4 million on exploration in respect to the tenement within a period of four years; and
2. After earning the minimum interest, Gold Fields may elect to continue to sole fund (a further \$10 million) and earn a further 20% over four years.

The Cheesemans Creek Project in NSW is underlain by Ordovician rocks of the Lachlan Fold Belt considered highly prospective for porphyry related mineralisation.

## **Currumburrama EL5792. JV with Sandfire Resources, right to earn up to 80%**

Sandfire Resources and Straits Resources have finalised an agreement with regards to a Farm-in Joint Venture for the Currumburrama EL5792. In terms of the agreement, Sandfire has the right to earn up to 80% of the project area by sole funding \$8,000,000 over six years with the following terms;

1. Sandfire may earn a 65% interest by sole funding \$4,000,000 on exploration in respect to the tenement within a period of three years.
2. After earning the minimum interest, Sandfire may elect to continue to sole fund (a further \$4,000,000) and gain exclusive control and earn a further 15%.

## **South Australia**

### **Torrens**

The Torrens Joint Venture (Torrens EL 4296) is between Argonaut Resources NL (ASX: ARE) and Straits Resources Limited (Straits earning a 70% interest).

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

The Torrens JV partners are in the process of appealing the ERD Court decision (Justice Tilmouth) to allow commencement of exploration activities. Straits remain hopeful that an arrangement with the traditional owners can be reached to allow access for exploration activities without the need for further legal action.

### **UXA and Straits Stuart Shelf Joint Venture**

The Stuart Shelf Joint Venture is between UXA and Straits Resources Limited ("Straits" earning a 70% interest). The joint venture includes 9 tenements (total of 3,300km<sup>2</sup>) in the highly prospective Olympic Dam-Prominent Hill area prospective for world class Cu-Au (U) deposits.

During the reporting period Straits reported the completion of a three hole diamond drilling program targeting iron oxide copper gold (IOCG) deposits on UXA's Winjabbie (EL4764), Glenside (EL4700) and Oak Dam (EL4800) tenements.

The Glenside drill hole UGSDD001, completed in April (ASX releases 23 April & 24 May 2012), intersected 150 metres of altered and mineralised basement rocks from 1,082m. The three main mineralised zones had a combined intersection of 96m @ 0.21% Cu (including 32m @ 0.36% Cu).

## **Queensland**

### **Ivanhoe (Australia) Pty Ltd – Duchess JV.**

Straits and Ivanhoe Australia have finalised a Joint venture arrangement for the remaining sub-blocks of EPM9083 Monastery and EPM 11013 Burke River.

Ivanhoe will spend \$1 million on exploration over three years to earn a 70% interest in the tenements.

1. Ivanhoe will manage the exploration programmes and sole fund the exploration activities during the earn-in period.
2. Ivanhoe is to ensure that the tenements are kept in good standing during this time.

## HUMAN RESOURCES

At Straits, we recognise that our prospects for sustained success and future growth greatly depend on how well we develop, nurture and retain a high calibre workforce capable of superior performance. The skills, knowledge and ongoing engagement of employees and contractor personnel at all levels, and across all spheres of Straits' activity are critical to achieving operational and corporate goals. This is particularly so in the context of highly competitive commercial and labour market conditions.

Our approach to workforce relations is founded on a rock-solid commitment to providing jobs and careers that are more than just the sum of their parts. We are competitive in our remuneration and rewards offering; but crucially we also endeavour to make the most of our capacity as a compact and nimble employer to provide talented individuals with unique experiences, varied career scope and job flexibility.

### Our Workforce

As of 30 June 2012 Straits Resources had a combined workforce (full-time equivalent) of 1,536 staff and contractor-engaged personnel across our Australian and Indonesian locations:

| Location             | Staff        | Contractors | Total        |
|----------------------|--------------|-------------|--------------|
| Tritton              | 326          | 61          | 387          |
| Mt Muro              | 717          | 382         | 1,099        |
| Hillgrove            | 6            | -           | 6            |
| Regional Exploration | 5            | -           | 5            |
| Corporate            | 37           | 2           | 39           |
| <b>Total</b>         | <b>1,091</b> | <b>445</b>  | <b>1,536</b> |

### Diversity

Straits Resources recognises the distinctive commercial and social imperatives for our ongoing program of action to improve diversity within the organisation. We compete for essential skills and capabilities in a market that continues to be extremely competitive. The degree to which we are able to consistently attract and retain the best individuals from the widest possible talent pool remains the critical factor in our plans for building a successful enterprise.

In 2012 Straits continued to develop activities and programs in support of positive diversity initiatives supporting attraction and retention of the best talent to deliver the best results for the Company and its shareholders. Enhancements to existing employee programs included improved company-paid parental leave provisions and an expansion of part-time and flexible hours working arrangements across the Company.

### Measurable Objectives

In accordance with our Diversity Policy we have established a number of measurable objectives against which we will report annually. We are continuing to refine current measures in use and are working to broaden the range of measures to improve the relevance and quality of our reporting in this area.

#### 1. Procedural / Structural

- Formal Diversity Policy adopted by the Board and communicated throughout the Company.
- Review of Human Resources policies to ensure inclusion of key indicators of diversity, such as composition of interview panels and candidate shortlists.
- Enhanced Human Resources system capability to enable superior reporting and analysis of workforce characteristics.

#### 2. Key indicators

- Workforce demographics – a gender analysis of workforce is reported to Board monthly.
- Further development of Human Resources system reporting and analytic capability. This will facilitate a wider range of performance indicators for diversity.

### 3. Initiatives and programmes

- Employee survey - a pilot survey on Employment of Women and diversity was conducted in May 2011. We are currently refining the survey instrument for wider use.
- Site presentations on diversity and related Human Resources policies and programmes are continuing.
- Strategy for attraction, recruitment and retention of women which includes investigation of options for employment that widen Straits' appeal in less traditional areas of the labour market.

#### ***SRQ Australian Workforce - Gender Profile as at 30 June 2012***

| <b>Role type</b>    | <b>Women</b> | <b>Men</b> | <b>Total</b> | <b>% Women</b> | <b>% Men</b> |
|---------------------|--------------|------------|--------------|----------------|--------------|
| Board               | 1            | 5          | 6            | 17%            | 83%          |
| Senior Executive*   | -            | 4          | 4            | 0%             | 100%         |
| Manager/Supervisory | 6            | 54         | 60           | 10%            | 90%          |
| Professional/Trades | 33           | 63         | 96           | 34%            | 66%          |
| Operations/Support  | 10           | 198        | 208          | 5%             | 95%          |
| <b>Total</b>        | <b>50</b>    | <b>324</b> | <b>374</b>   | <b>13%</b>     | <b>87%</b>   |

\* additional to Executive Directors on Board

## HEALTH, SAFETY and ENVIRONMENT

Straits Resources Limited remains committed to providing a safe workplace and environment for our employees, contractors and visitors, and for the communities in which we operate.

Health, safety and environmental (HSE) programs within the Company focus at the operations level with advice and oversight provided at the corporate level. A combination of specific leading and standard lagging indicators are monitored to promote a proactive approach to minimising hazards and risk in the workplace.

The operating leading indicators are specific to each site and are mainly based on:

- Risk assessments;
- Hazard reporting;
- Incident reporting and investigation;
- Management led inspections and task observations;
- Completion of actions to mitigate risks;
- Procedural reviews; and
- Leadership and supervisory training.

The industry standard lagging indicators of Lost Time Injury Frequency Rate (LTIFR) and Total Recordable Injury Frequency Rate (TRIFR) supplement the leading indicators and provide a measure of past performance and trends.

During the year, a total of ten Lost Time Injuries were experienced at the two operating sites, eight at Tritton and two reported at Mt Muro. Regrettably, there was a fatal accident at Mt Muro during the year.

### **Tritton Copper Mine, NSW**

Over the past twelve months the HSE system at Tritton has continued to mature and the site has built on its commitment to Safety Leadership. The site changed to owner operator mining, and this transition was accompanied by the implementation of many new systems across the site, including the Job Start risk assessment tool and site Lifesaving Rules. The site has since witnessed increased hazard reporting across the entire workforce which has in turn improved the control of hazards in the workplace.

During the year the site completed a program of Prescribed Hazard Risk Assessments. Prescribed Hazards as identified under the NSW Mine Health and Safety Act 2004 include:

- Ground instability;
- Shaft design, construction and use;
- Use of conveyors and earth moving machinery;
- Fire and explosion;
- Handling of explosives; and
- Electricity.

The Risk Assessment program also led to the development and review of many of the site safety Management Plans covering emergency response, working at heights, fatigue, traffic and training.

Environmental awareness across site continues to grow, fostered through toolbox talks and the environmental induction program. Work was carried out to provide an up to date assessment of flora and fauna across the sites.

An extensive drill program was implemented to install additional piezometers around both Girilambone and Tritton to further improve the understanding of groundwater movements.

As a result of the work conducted under the site Risk Assessment program, environmental Management Plans were reviewed and developed for land, bushfire, flora and fauna, heritage, weeds, waste rock characterisation, contaminated land, and hazardous substances and dangerous goods.

### **Mt Muro Gold/ Silver Mine, Indonesia**

During the year, Mt Muro established a revised site HSE Management System consistent with international standards and with the Corporate HSE performance standards. A variety of new HSE programs were introduced under this system, including the key programs of risk assessments and improvement planning, HSE event reporting/investigation, standard operating procedures and training, inspections and management of corrective actions.

These programs are aimed at achieving the desired HSE performance according to Corporate and international standards, while tailoring the delivery and implementation of the programs to suit the local culture and experience of the workforce.

Environmental management is a major focus of the operation, with regulatory reporting of all environmental monitoring activities being completed each quarter under the normal conditions of the site Environmental Management and Monitoring plans (RKL-RPL). This is supported by audits of the site environmental performance by Government authorities under the PROPER program to promote environmental performance and reduce pollution.

Rehabilitation of disturbed land is carried out progressively with help from local villagers, initially to plant seedlings cultivated in the site nursery, followed by treatment of run-off water and on-going monitoring in the medium to long term. Vast areas have been returned to their natural state over the life of the mine.

### **Hillgrove Antimony Project, New South Wales**

The Lost Time Injury (LTI) and Total Recordable Injury (TRI) frequency rates at Hillgrove reduced to zero as the site continued in care and maintenance mode. Despite not being operational and having reduced staff, the site continued to focus on maintaining a safe workplace and managing environmental issues, with emphasis on reducing risk and maintaining compliance through the care and maintenance period.

Major projects included storm water management associated with very high rainfall in the second half of 2011, when the storm water and tailings storage facilities were impacted by high water volumes. During this period five evaporators and a 1.44 ML per day reverse osmosis plant were installed to manage site water.

Additional rehabilitation of the historic Garibaldi laydown area was completed, and work continued with the rehabilitation of the historical concentrator site which is now ready for final sampling.

Co-operation with the University of New England in Armidale continued as Straits again provided support for further research into historical environmental issues.

## COMMUNITY

Straits believes in fostering close community relations to develop mutually beneficial long-term relationships, based on respect and transparency, with the communities and stakeholders in the areas in which we operate. This is particularly important in Indonesia where language and cultural issues require dedicated attention.

The company is an active participant in the economic and social wellbeing of our local communities, commensurate with the economic opportunities particular to each location. We are committed to helping preserve local customs and cultural heritage, and all development works are implemented to avoid or minimise the impact to significant cultural sites as a first principle.

### **Tritton Copper Mine, New South Wales**

Straits has been involved in the Nyngan region for almost 20 years, commencing with the development of the Girilambone copper project, and has continued to support meaningful and sustained involvement with the local communities of Nyngan, Hermidale and Girilambone.

The company is a major employer in the Nyngan region, directly employing approximately 350 permanent and casual staff, and support service providers. Straits is proud of the fact that in a challenging environment where the majority of mines are turning to fly in–fly out or drive in–drive out employment arrangements, our preference for residential based employment has resulted in over half of the workforce choosing to reside in the local community, in turn contributing to the local economy and community fabric. To this end, the company constructed four new houses this year to provide additional accommodation for families living in Nyngan.

Throughout 2011/12 as it has done for many years, Straits Tritton Mines has provided support to local community groups in the area of sport and recreation, education and health including:

- Community groups such as the Nyngan Show Society, Nyngan Miss Junior Showgirl, Nyngan Museum, Nyngan Men's Shed and NAIDOC day;
- Assistance to Girilambone Public School;
- The Nyngan High School:
  - Continued support of the exchange program to Tongling (China sister city);
  - School-based apprenticeships/Traineeships offered this year to six students; and
  - Purchase of music equipment to assist with the production of school musicals;
- Sporting groups such as the Mid-Western Equestrian Club – Eventing Championship, Duck Creek Race Day; and
- Major sponsorship of the Nyngan Relay for Life – Cancer Council.

### **Mt Muro Gold/Silver Mine, Indonesia**

Straits provides a number of support and development programs to various villages within the mine operating areas. These programs are focussed on improved self-reliance such as small business development, skills training, employment, education and education support. These complement other direct assistance infrastructure projects that have delivered schools, roads, bridges and the like.

Specific activities and programs over the last year have covered the following areas:

- Working with and financially supporting the Dayak Custom Council, recognising and supporting the Sub Regency Demang (Dayak Cultural Leader) as the formal representative of the local Dayak Tribes. Assisting with the preservation of local Dayak culture through the construction and donation of a traditional Dayak long-house, Demang's Residence and supporting and funding local Dayak ceremonies.
- Support to the local Regency Government on key local road construction and maintenance programs, which have resulted in better access for eight villages.
- Coordination of programs to improve local health awareness on various issues such as tuberculosis and mercury. The Mt Muro mine clinic and ambulance also provides emergency services to communities adjacent to our operation.

- Continued support for the Orangutan Translocation Project in co-operation with the Borneo Orangutan Survival Foundation, through the provision of facilities and logistical assistance since 2006.
- Fostering the establishment of Community Self-Help Groups in the areas of savings, micro-finance and local business. These in turn have assisted the mine through the local provision of non-core activities and the servicing of mine requirements (such as local production of exploration sample bags and local production of lime for the process plant).
- Funding of a Soccer Clinic which provides sports equipment and training for local children within the Community.
- Provision of safety awareness training for local communities in relation to motor cycle safety and promoting the use of helmets.
- A continuing education program for a number of nearby schools, with the provision of additional teachers for elementary schools, a number of incentives to support the local part time teachers, a book donation program, and environmental awareness programs for schools.
- Commencement of a Heavy Equipment Operator Training Program with the involvement of an experienced trainer of Balikpapan. During the year, eighteen local residents successfully completed the initial training program.
- Community service programs around the Mt Muro mine in the form of staple food aid for the poorest families are being prepared including the community development of training plans.

# Mineral Resource Statement

## Straits Resources Limited Resource Statement as at 30 June 2012

### Copper

| Region                          | Project                       | Cut-off     | Commodity             | Measured     | Indicated     | Inferred     | Total         |
|---------------------------------|-------------------------------|-------------|-----------------------|--------------|---------------|--------------|---------------|
| Tritton Copper Operation        | Tritton Underground           | Variable Cu | Tonnes (kt)<br>Cu (%) | 2,546<br>2.4 | 9,986<br>1.5  | 2,596<br>1.5 | 15,128<br>1.7 |
|                                 | Tritton Pillars (Recoverable) | Variable Cu | Tonnes (kt)<br>Cu (%) | 389<br>2.5   |               |              | 389<br>2.5    |
|                                 | Murrawombie                   | 0.6% Cu     | Tonnes (kt)<br>Cu (%) |              | 6,240<br>1.4  | 1,190<br>1.2 | 7,430<br>1.4  |
|                                 | North East                    | 0.6% Cu     | Tonnes (kt)<br>Cu (%) | 162<br>2.3   | 438<br>2.0    |              | 600<br>2.1    |
|                                 | Larsens                       | 0.6% Cu     | Tonnes (kt)<br>Cu (%) |              | 810<br>1.8    |              | 810<br>1.8    |
|                                 | Avoca Tank                    | 0.6% Cu     | Tonnes (kt)<br>Cu (%) |              |               | 1,490<br>2.7 | 1,490<br>2.7  |
|                                 | Budgerygar                    | 0.8% Cu     | Tonnes (kt)<br>Cu (%) |              |               | 1,610<br>1.5 | 1,610<br>1.5  |
|                                 | Budgery                       | 0.5% Cu     | Tonnes (kt)<br>Cu (%) |              | 1,720<br>1.1  | 270<br>0.9   | 1,990<br>1.1  |
|                                 | Stockpiles                    | Variable Cu | Tonnes (kt)<br>Cu (%) | 13<br>1.7    |               |              | 13<br>1.7     |
| Grand Total (Tritton Operation) |                               | Variable Cu | Tonnes (kt)<br>Cu (%) | 3,110<br>2.4 | 19,194<br>1.5 | 7,156<br>1.7 | 29,460<br>1.6 |

### Precious Metals

| Region                          | Project         | Cut-off       | Commodity   | Measured | Indicated | Inferred | Total  |
|---------------------------------|-----------------|---------------|-------------|----------|-----------|----------|--------|
| Mt Muro Gold Operation          | Serujan         | 0.5 g/t AuEq  | Tonnes (kt) |          | 3,800     | 470      | 4,270  |
|                                 |                 |               | Au (g/t)    |          | 2.3       | 2.0      | 2.3    |
|                                 |                 |               | Ag (g/t)    |          | 53        | 37       | 51     |
|                                 | Bantian Area    | 0.5 g/t AuEq  | Tonnes (kt) |          | 4,500     | 730      | 5,230  |
|                                 |                 |               | Au (g/t)    |          | 1.5       | 1.1      | 1.4    |
|                                 |                 |               | Ag (g/t)    |          | 36        | 18       | 33     |
|                                 | Permata-Hulubai | 0.5 g/t AuEq  | Tonnes (kt) |          | 660       | 580      | 1,240  |
|                                 |                 |               | Au (g/t)    |          | 2.6       | 2.9      | 2.8    |
|                                 |                 |               | Ag (g/t)    |          | 105       | 113      | 108    |
|                                 | Soan            | 1.0 g/t AuEq  | Tonnes (kt) |          | 770       | 30       | 800    |
|                                 |                 |               | Au (g/t)    |          | 4.2       | 1.1      | 4.0    |
|                                 |                 |               | Ag (g/t)    |          | 57        | 29       | 56     |
|                                 | Other           | Variable AuEq | Tonnes (kt) |          | 1,940     | 6,240    | 8,180  |
|                                 |                 |               | Au (g/t)    |          | 1.7       | 1.5      | 1.5    |
|                                 |                 |               | Ag (g/t)    |          | 23        | 21       | 21     |
|                                 | Stockpiles      | Variable AuEq | Tonnes (kt) | 36       |           |          | 36     |
|                                 |                 |               | Au (g/t)    | 1.2      |           |          | 1.2    |
|                                 |                 |               | Ag (g/t)    | 36       |           |          | 36     |
| Grand Total (Mt Muro Operation) |                 | Variable AuEq | Tonnes (kt) | 36       | 11,670    | 8,050    | 19,756 |
|                                 |                 |               | Au (g/t)    | 1.2      | 2.0       | 1.6      | 1.8    |
|                                 |                 |               | Ag (g/t)    | 36       | 44        | 28       | 38     |

| Region         | Project | Cut-off    | Commodity               | Measured | Indicated | Inferred     | Total        |
|----------------|---------|------------|-------------------------|----------|-----------|--------------|--------------|
| Drummond Basin | Yandan  | 0.5 g/t Au | Tonnes (kt)<br>Au (g/t) |          |           | 4,100<br>2.4 | 4,100<br>2.4 |

| Region  | Project         | Cut-off    | Commodity               | Measured | Indicated    | Inferred      | Total         |
|---------|-----------------|------------|-------------------------|----------|--------------|---------------|---------------|
| Blayney | Discovery Ridge | 0.5 g/t Au | Tonnes (kt)<br>Au (g/t) |          | 4,900<br>1.3 | 9,100<br>1.1  | 14,000<br>1.2 |
|         | Bald Hill       | 0.3 g/t Au | Tonnes (kt)<br>Au (g/t) |          |              | 37,000<br>0.5 | 37,000<br>0.5 |

### Copper - Gold

| Region | Project                                | Cut-off   | Commodity                         | Measured | Indicated            | Inferred              | Total                 |
|--------|----------------------------------------|-----------|-----------------------------------|----------|----------------------|-----------------------|-----------------------|
| Temora | Temora Porphyry Copper - Gold Projects | 0.3% CuEq | Tonnes (kt)<br>Cu (%)<br>Au (g/t) |          | 26,000<br>0.3<br>0.5 | 253,000<br>0.3<br>0.2 | 279,000<br>0.3<br>0.2 |

| Region | Project    | Cut-off    | Commodity                         | Measured | Indicated            | Inferred             | Total                |
|--------|------------|------------|-----------------------------------|----------|----------------------|----------------------|----------------------|
| Temora | Gidginbung | 0.5 g/t Au | Tonnes (kt)<br>Au (g/t)<br>Cu (%) |          | 11,100<br>1.0<br>0.1 | 12,700<br>0.9<br>0.1 | 23,800<br>1.0<br>0.1 |

### Strategic Metals - Antimony/Gold

| Region                                | Project        | Cut-off      | Commodity   | Measured | Indicated | Inferred | Total |
|---------------------------------------|----------------|--------------|-------------|----------|-----------|----------|-------|
| Hillgrove Antimony and Gold Operation | Metz           | 3.0 g/t AuEq | Tonnes (kt) | 387      | 966       | 676      | 2,029 |
|                                       |                |              | Au (g/t)    | 3.5      | 3.4       | 3.4      | 3.4   |
|                                       |                |              | Sb (%)      | 3.4      | 1.7       | 1.9      | 2.1   |
|                                       | Brackin's Spur | 3.0 g/t AuEq | Tonnes (kt) | 23       | 446       | 524      | 993   |
|                                       |                |              | Au (g/t)    | 6.7      | 5.6       | 5.2      | 5.4   |
|                                       |                |              | Sb (%)      | 0.4      | 1.3       | 1.8      | 1.5   |
|                                       | Eleanora       | 3.0 g/t AuEq | Tonnes (kt) | 554      | 1,382     | 506      | 2,442 |
|                                       |                |              | Au (g/t)    | 6.6      | 4.7       | 4.0      | 5.0   |
|                                       |                |              | Sb (%)      | 1.0      | 0.8       | 0.8      | 0.9   |
|                                       | Other          | 3.0 g/t AuEq | Tonnes (kt) | 3        | 746       | 82       | 831   |
|                                       |                |              | Au (g/t)    | 4.1      | 2.6       | 6.7      | 3.0   |
|                                       |                |              | Sb (%)      | 3.0      | 2.4       | 2.4      | 2.4   |
|                                       | Stockpiles     | 3.0 g/t AuEq | Tonnes (kt) | 54       |           |          | 54    |
|                                       |                |              | Au (g/t)    | 2.0      |           |          | 2.0   |
|                                       |                |              | Sb (%)      | 2.2      |           |          | 2.2   |
| Grand Total (Hillgrove Operation)     |                | 3.0 g/t AuEq | Tonnes (kt) | 1,021    | 3,540     | 1,788    | 6,349 |
|                                       |                |              | Au (g/t)    | 5.1      | 4.0       | 4.3      | 4.3   |
|                                       |                |              | Sb (%)      | 1.9      | 1.5       | 1.6      | 1.6   |

## Notes on the Mineral Resources: General

The information in this report that relates to Mineral Resources and Ore Reserves is based on information compiled by Byron Dumbleton, who is a member of the Australian Institute of Geoscientists. Mr Dumbleton is a full-time employee of Straits Resources Limited and has sufficient experience relevant to the styles of mineralisation, types of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Dumbleton consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Mineral Resources are inclusive of Ore Reserves.

Discrepancies in summations may occur due to rounding.

### Tritton Copper Operation

The VMS massive sulphide mineralised systems ("Besshi style") at the Tritton Copper Operation were defined by geologically logged and assayed diamond drill core and rock chips from percussion drilling. Mineral resource limiting envelopes were developed using geological interpretations at nominal copper cut-off grades between 0.3% and 0.8%.

All Mineral Resources reported for the Tritton Copper Operation were estimated using Ordinary Kriging, a geostatistical block modelling technique applicable for this deposit style.

### Mt Muro Gold Mine

The epithermal vein systems at Mt Muro were defined by geologically logged and assayed diamond drill core and rock chips from percussion drilling. Mineral resource limiting envelopes representing the vein systems were developed using geological interpretation and cut-off grades of a nominal 0.5 g/t Au equivalent (AuEq) for Serujan, Permata-Hulubai and Bantian, 0.3 g/t Au for Langanthian and 1.0 g/t AuEq for the remaining resources. The interpretations based on an Au equivalent were based on using a 70:1 gold:silver value ratio.

AuEq cut off gold to silver ratio is based on USD1,500 for gold and USD34 for silver. Metallurgical recoveries have not been applied to the AuEq values. Historical gold and silver recoveries for Mt Muro range from 90-95% for gold and 65-80% for silver.

All Mineral Resource ounces reported for Mt Muro were estimated using Ordinary Kriging, a geostatistical block modelling technique applicable for this deposit style.

The Bantian Area resource figures include the Bantian Deposit plus material from the Luit Bawah and Gerantung Deposits located to the west of Bantian.

The category "Other" combines Mineral Resources from the Kerikil, Langanthian, Anak Dua, Dua Lugi reported at 0.5 g/t AuEq, and Sinbar and Sinter deposits reported at 1.0 g/t AuEq.

### Drummond Basin, Blayney and Temora

Mineralisation at these deposits was defined by geologically logged and assayed diamond drill core and rock chips from percussion drilling. Mineral resource limiting envelopes were developed using either geological interpretation and/or cut-off grades. No limiting envelopes were developed for Gidginbung.

The Discovery Ridge (Blayney) Mineral Resource estimates were developed using a nominal 0.3 Au g/t grade envelope. Mineral Resource estimates for Bald Hill (Blayney) and the Temora Mineral Resource estimates were based on geological constraints. Gidginbung was modelled unconstrained due to diffuse boundaries.

The Copper equivalent (CuEq) reported for the Temora projects is based on a USD7,900/tonne copper price and a USD1,765/oz gold price (spot prices as at 4<sup>th</sup> Nov 2011). No metallurgical recoveries were applied to the Temora CuEq cut offs reported. Representative preliminary recoveries at the Yiddah, Mandamah and Dam resources for copper range from 80-94% and Gold from 59-73%.

Gidginbung Resource has been estimated to 300m depth. Fresh component of the Gidginbung resource is described as high sulphidation type. Resource figures quoted do include oxide and transitional material. Metallurgical test work undertaken in 1994 show indicative CIP recoveries ranging from 25-50%.

At Yandan (Drummond Basin), mineral resource estimates are based on material that only occurs within the geologically interpreted "non-refractory" vein envelopes.

Mineral resource grades for the Blayney Temora and Gidginbung deposits were estimated using Ordinary Kriging, a geostatistical block modelling technique applicable for this deposit style. For Yandan, the inverse distance estimation method was used for the resource estimation.

### Hillgrove Antimony and Gold Operation

The vein and lode systems at Hillgrove were defined by geologically logged and assayed diamond drill core, and underground mapping, and for Clarks Gully both percussion and diamond drill core were used. Mineral resource limiting envelopes representing the vein systems were developed using geological interpretation and cut-off grades at a nominal 3.0 g/tonne Au equivalent (AuEq). AuEq values were based on a USD5,500/tonne antimony price and a USD1,000/oz gold price. Metallurgical recoveries have not been applied to the AuEq calculations.

The Hillgrove mineral resources were estimated, using a variety of techniques. For the Metz and Eleanora deposits Ordinary Kriging, a geostatistical block modelling technique applicable for this deposit style was used. For the Braken's Spur deposit the inverse distance estimation method was used. For the "Other" classification a range of classical non geostatistical techniques were used.

The "Metz" Mineral Resource classification includes the Syndicate, Blacklode, Cox's Reef and Prendergasts deposits.

The "Other" Mineral Resource classification includes the Freehold, Smiths, Bakers Creek, Clarks Gully, Cosmopolitan, Damifino, and Lady Hopetoun deposits.

# Ore Reserve Statement

## Straits Resources Limited Reserve Statement as at 30 June 2012

| Copper                           |             |               |            |                  |        |          |         |
|----------------------------------|-------------|---------------|------------|------------------|--------|----------|---------|
|                                  |             |               |            |                  |        |          |         |
| Region                           | Project     | Mining Method | Cut-off Cu | Commodity        | Proved | Probable | Total   |
| Tritton Copper Operation         | Tritton     | UG            | Variable   | Tonnes (kt)      | 1,100  | 4,610    | 5,710   |
|                                  |             |               |            | Cu (%)           | 2.0    | 1.8      | 1.8     |
|                                  |             |               |            | Cu recovered (t) | 20,700 | 76,000   | 96,700  |
|                                  | Murrawombie | UG            | Variable   | Tonnes (kt)      |        | 1,370    | 1,370   |
|                                  |             |               |            | Cu (%)           |        | 1.7      | 1.7     |
|                                  |             |               |            | Cu recovered (t) |        | 21,600   | 21,600  |
|                                  | North East  | UG            | Variable   | Tonnes (kt)      | 71     | 183      | 254     |
|                                  |             |               |            | Cu (%)           | 1.8    | 2.2      | 2.1     |
|                                  |             |               |            | Cu recovered (t) | 1,200  | 3,800    | 5,000   |
|                                  | Larsens     | UG            | Variable   | Tonnes (kt)      |        | 440      | 440     |
|                                  |             |               |            | Cu (%)           |        | 1.6      | 1.6     |
|                                  |             |               |            | Cu recovered (t) |        | 6,600    | 6,600   |
|                                  | Stockpiles  | Stockpile     | Variable   | Tonnes (kt)      | 13     |          | 13      |
|                                  |             |               |            | Cu (%)           | 1.7    |          | 1.7     |
|                                  |             |               |            | Cu recovered (t) | 200    |          | 200     |
| Grand Total (Tritton Operations) |             |               | Variable   | Tonnes (kt)      | 1,184  | 6,603    | 7,787   |
|                                  |             |               |            | Cu (%)           | 2.0    | 1.7      | 1.8     |
|                                  |             |               |            | Cu recovered (t) | 22,100 | 108,000  | 130,100 |

| Precious Metals – Gold and Silver    |              |               |                   |                   |        |           |           |
|--------------------------------------|--------------|---------------|-------------------|-------------------|--------|-----------|-----------|
|                                      |              |               |                   |                   |        |           |           |
| Region                               | Project      | Mining Method | Cut-off AuEq      | Commodity         | Proved | Probable  | Total     |
| Mt Muro Gold Operation               | Seurujan     | OP            | 0.5               | Tonnes (kt)       |        | 3,172     | 3,172     |
|                                      |              |               |                   | Au (g/t)          |        | 2.2       | 2.2       |
|                                      |              |               |                   | Ag (g/t)          |        | 50        | 50        |
|                                      |              |               |                   | Au recovered (oz) |        | 211,000   | 211,000   |
|                                      |              |               |                   | Ag recovered (oz) |        | 3,850,000 | 3,850,000 |
|                                      | Bantian Area | OP            | 0.5               | Tonnes (kt)       |        | 2,855     | 2,855     |
|                                      |              |               |                   | Au (g/t)          |        | 1.4       | 1.4       |
|                                      |              |               |                   | Ag (g/t)          |        | 36        | 36        |
|                                      |              |               |                   | Au recovered (oz) |        | 123,000   | 123,000   |
|                                      |              |               |                   | Ag recovered (oz) |        | 2,450,000 | 2,450,000 |
|                                      | Hulubai      | OP            | Variable          | Tonnes (kt)       |        | 164       | 164       |
|                                      |              |               |                   | Au (g/t)          |        | 2.8       | 2.8       |
|                                      |              |               |                   | Ag (g/t)          |        | 86        | 86        |
|                                      |              |               |                   | Au recovered (oz) |        | 14,000    | 14,000    |
|                                      |              |               |                   | Ag recovered (oz) |        | 340,000   | 340,000   |
|                                      | Langantihan  | OP            | Variable          | Tonnes (kt)       |        | 839       | 839       |
|                                      |              |               |                   | Au (g/t)          |        | 1.1       | 1.1       |
|                                      |              |               |                   | Ag (g/t)          |        | 12        | 12        |
|                                      |              |               |                   | Au recovered (oz) |        | 27,000    | 27,000    |
|                                      |              |               |                   | Ag recovered (oz) |        | 240,000   | 240,000   |
|                                      | Soan         | UG            | Variable          | Tonnes (kt)       |        | 520       | 520       |
|                                      |              |               |                   | Au (g/t)          |        | 5.2       | 5.2       |
|                                      |              |               |                   | Ag (g/t)          |        | 64        | 64        |
|                                      |              |               |                   | Au recovered (oz) |        | 82,000    | 82,000    |
|                                      |              |               |                   | Ag recovered (oz) |        | 800,000   | 800,000   |
| Stockpiles                           | Stockpile    | Variable      | Tonnes (kt)       | 36                |        | 36        |           |
|                                      |              |               | Au (g/t)          | 1.2               |        | 1.2       |           |
|                                      |              |               | Ag (g/t)          | 36                |        | 36        |           |
|                                      |              |               | Au recovered (oz) | 1,400             |        | 1,400     |           |
|                                      |              |               | Ag recovered (oz) | 31,100            |        | 31,100    |           |
| Grand Total (Mt Muro Gold Operation) |              |               | Variable          | Tonnes (kt)       | 36     | 7,550     | 7,586     |
|                                      |              |               |                   | Au (g/t)          | 1.2    | 2.1       | 2.0       |
|                                      |              |               |                   | Ag (g/t)          | 36     | 45        | 42        |
|                                      |              |               |                   | Au recovered (oz) | 1,400  | 457,000   | 458,400   |
|                                      |              |               |                   | Ag recovered (oz) | 31,100 | 7,680,000 | 7,711,100 |

| Strategic Metals - Antimony/Gold      |            |               |              |                   |        |          |         |
|---------------------------------------|------------|---------------|--------------|-------------------|--------|----------|---------|
| Region                                | Project    | Mining Method | Cut-off AuEq | Commodity         | Proved | Probable | Total   |
| Hillgrove Antimony and Gold Operation | Metz       | UG            | Variable     | Tonnes (kt)       | 202    | 435      | 637     |
|                                       |            |               |              | Au (g/t)          | 2.5    | 3.2      | 3.0     |
|                                       |            |               |              | Sb (g/t)          | 3.2    | 2.2      | 2.5     |
|                                       |            |               |              | Au recovered (oz) | 13,500 | 37,200   | 50,700  |
|                                       |            |               |              | Sb recovered (oz) | 5,400  | 8,000    | 13,400  |
|                                       | Other      | UG            | Variable     | Tonnes (kt)       | 130    | 1,374    | 1,504   |
|                                       |            |               |              | Au (g/t)          | 6.1    | 4.0      | 4.2     |
|                                       |            |               |              | Ag (g/t)          | 1.1    | 2.0      | 1.9     |
|                                       |            |               |              | Au recovered (oz) | 21,200 | 146,600  | 167,800 |
|                                       |            |               |              | Sb recovered (oz) | 1,200  | 23,200   | 24,400  |
|                                       | Stockpiles | Stockpile     | Variable     | Tonnes (kt)       | 54     |          | 54      |
|                                       |            |               |              | Au (g/t)          | 2.0    |          | 2.0     |
|                                       |            |               |              | Sb (g/t)          | 2.2    |          | 2.2     |
|                                       |            |               |              | Au recovered (oz) | 2,900  |          | 2,900   |
|                                       |            |               |              | Sb recovered (oz) | 1,000  |          | 1,000   |
| Grand Total (Hillgrove Operation)     |            |               | Variable     | Tonnes (kt)       | 386    | 1,809    | 2,195   |
|                                       |            |               |              | Au (g/t)          | 3.6    | 3.8      | 3.8     |
|                                       |            |               |              | Sb (g/t)          | 2.4    | 2.1      | 2.1     |
|                                       |            |               |              | Au recovered (oz) | 37,600 | 183,800  | 221,400 |
|                                       |            |               |              | Sb recovered (oz) | 7,600  | 31,200   | 38,800  |

## Notes on the Ore Reserves:

The information in this report that relates to Ore Reserves is based on information compiled by Peter Storey, who is a member of the Australasian Institute of Mining and Metallurgy. Mr Storey is a full-time employee of Straits Resources Limited and has sufficient experience relevant to the styles of mineralisation, types of deposit under consideration and to the activity which he is undertaken to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Storey consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Mineral Resources are inclusive of Ore Reserves.

Discrepancies in summations may occur due to rounding.

## Tritton Copper Operation

Metal pricing used for calculating reserves for the Tritton Operation are Cu: USD3.6/lb, Fx rate: USD:AUD 1 (reducing to 0.9 after 3 years). A metallurgical recovery of 94% has been used to calculate copper metal recovered.

Tritton Proven Reserves are defined by planned mining shapes with 5-10% dilution depending on width of stope. A mining recovery factor has been applied to stoping at 95%.

Tritton Probable Reserves are defined by creating mining shapes around a nominal 1.2% Cu contours. Dilution is estimated by expanding these shapes 0.5m into the footwall and 1.0m into the hangingwall. A mining recovery factor has been applied to stoping at 95%.

North East Probable Reserves are calculated from planned mining shapes with 10% dilution. Stopping recovery is assumed to be 95%.

Larsens Reserves are calculated from planned mining shapes with 10% dilution. Stopping recovery is assumed to be 95%.

Murrawombie Probable Reserves are calculated by creating mining shapes around a nominal 1.0% copper resource. Dilution is estimated by expanding these shapes 1.0m into the footwall and 1.0m into the hangingwall. A Mining recovery factor has been applied to all stoping at 93%. The reduction in forward prices has resulted in removal of any stope below 1.2% Cu grade.

Tritton and North East Reserves are based on the estimated development and stoping positions as at 30 June 2012.

## Mt Muro Gold Operation

Gold Equivalent values are based on USD1,500 Gold and USD34 for Silver. Gold Equivalent equation = Gold value + Silver value/(1500/34). Metallurgical recoveries have not been applied to the Gold Equivalent values. Historical and current metallurgical recoveries for Mt Muro range from 90 to 95% for Gold and 65 to 80% for Silver.

Mt Muro Open Pit reserves for "Serujan" are based pit designs from Whittle Four-X optimised pit shells. Mining dilution of 10% and an ore loss of 5% have been applied. Metallurgical recoveries are based on 95% for gold and 75% for silver. Metal pricing used to calculate the open pit reserves are Au: USD1500/oz, Ag: USD34/oz.

Mt Muro Open Pit reserves for "Bantian Area, Hulubai and Langantihan" are based on open pit designs from Whittle Four-X optimised pit shells. Mining dilution of 5% and an ore loss of 5% have been applied. Metallurgical recoveries are based on 95% for gold and 75% for silver. Metal pricing used to calculate the open pit reserves are Au: USD1,500/oz, Ag: USD34/oz.

Bantian Area represents reserves developed from both the Bantian and Luit Bawah deposits.

Mt Muro Underground reserves have been reported against mining shapes with an allowance of 5% mining dilution and 95% mining recovery. Metallurgical recoveries are based on 95% recovery for gold and 75% recovery for silver. Metal pricing used to calculate reserves for the Underground Operations are Au: USD1,000/oz and Ag: USD15/oz.

Stockpiles included the stockpile situation as at 30 June 2012 for material on the ROM pad and short term stockpiles. These stocks are classified as a Measured Resource and as a Proven Reserve for Mt Muro. These stockpiles are the only material for Mt Muro that has been classified as a "Proven" Reserve.

## Hillgrove Gold Operation

Commodity prices adopted for the estimation of the Hillgrove Gold Operation ore reserves were AUD1,000 / oz Au and AUD5,500 / tonne antimony.

Hillgrove ore reserves were estimated based on the use of long hole open stoping as the primary mining method. Using the above pricing, resource models were expanded where required to the minimum mining width of 1.8 metres, before a 5.0 g/tonne AuEq cut-off grade was applied to generate preliminary stope designs.

Final stope designs incorporate 0.25 metres of planned dilution to both hangingwall and footwall.

Mine recoveries of 98% and metallurgical recoveries of 84% for antimony in concentrate and 83% for gold in concentrate were applied.

Hillgrove, "Other" ore reserves represent the Brackins Spur, Bakers Creek, Smiths-Freehold and Eleanora Upper and Lower mining centres, whilst the "Metz" classification represents the Syndicate, Blacklode, Cox's Reef, Prendergasts and Austins deposits.

# Corporate Governance

The directors of Straits believe that effective corporate governance improves company performance, enhances corporate social responsibility and benefits all stakeholders. Governance practices are not a static set of principles, and the Company assesses its governance practices on an ongoing basis. Changes and improvements are made in a substance over form manner, which appropriately reflects the changing circumstances of the Company as it grows and evolves. Accordingly, the Board has established a number of practices and policies to ensure that these intentions are met and that all shareholders are fully informed about the affairs of the Company.

The Company has a corporate governance section on the website at [www.straits.com.au](http://www.straits.com.au). The section includes details on the Company's governance arrangements and copies of relevant policies and charters, and a compliance checklist.

## ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

The Company has adopted the second edition, with the 2010 Amendments, of the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Principles). Straits' corporate governance practices for the year ended 30 June 2012, and at the date of this report, are outlined in this corporate governance statement. Where the Company has not followed a recommendation, reasons for non-compliance have been identified. All these practices, unless otherwise stated, were in place for the 12 month period. This disclosure is in accordance with ASX Listing Rule 4.10.3.

### Principle 1 – Lay Solid Foundations for Management and Oversight

The Board is responsible to the shareholders for the performance of the Company in both the short and long term. Their focus is to enhance the interest of shareholders, taking into account the interests of other stakeholders and to ensure the Company is properly managed.

#### Role

Broadly, the key responsibilities of the Board are:

- Setting the strategic direction of the Company with management, and monitoring management's implementation of that strategy;
- Evaluating, approving and monitoring major capital expenditure, capital management and all major corporate transactions;
- Approving the annual operating budget, annual shareholders' report and annual financial accounts;
- Appointing, monitoring, managing the performance of, and if necessary terminating, the employment of the Chief Executive Officer;
- Approving and monitoring the Company's Risk Management Policy and Guidelines; and
- Ensuring compliance with the Corporations Act 2001, ASX listing rules and other relevant regulations.

#### Delegation

The Board Charter sets out the Board's delegation of responsibility to allow the Chief Executive Officer and the executive management team to carry on the day-to-day operations and administration of the Company. The Board Charter supports all delegations of responsibility by formally defining the specific functions reserved for the Board and its Committees and those matters delegated to management. The Chief Executive Officer is accountable to the Board for the authority that is delegated by the Board.

All directors and key executives reporting to the Chief Executive Officer of the Company have been given formal letters of appointment outlining key terms and conditions of their appointment.

#### Performance Evaluation Process of Senior Executives

Information on the process for evaluating the performance of senior executives can be found in the Directors' Report.

## **Principle 2 – Structure the Board to Add Value**

The Board operates in accordance with broad principles set out in its Charter, which is available from the Corporate Governance section of the Company's website. The Directors have formally adopted the Board Charter.

### **Board Members**

Details of Board members, their experience, expertise, qualifications, term in office and independence status are set-out at the commencement of the Directors' Report.

The current structure of the Board complies with ASX Recommendation 2.1. However, for the majority of the year the Board composition did not comply with ASX Recommendation 2.1, as a majority of the directors were not independent. In determining the independence of directors, the Board has regard to the independence criteria as set out in the ASX Principles. Currently, the Board consists of five directors of which Mr Alan Good, the Chairman, Dr Susan Vearncombe and Mr Colin Wise are considered independent within the ASX's definition. Dr Garry Lowder, considered an independent director, resigned on 1 July 2011. Mr Alastair Morrison is a non-executive director but does not fall within the ASX definition of "independent" as he is appointed by Standard Chartered Private Equity, which holds 18.4% of the issued capital in Straits. The Board has determined to appoint an additional independent non-executive director and is currently seeking a suitably qualified person.

The Board has implemented strategies to achieve Board diversity and ensure the directors have a mix of skills, experience and expertise appropriate for the Company.

To the extent that it is necessary for the Board to consider issues of materiality, the Board refers to the threshold for qualitative and quantitative materiality as adopted by the Board and contained in the Board Charter. The Board assesses independence at the time of appointment of directors and monitors the independence of directors as and when appropriate.

The Board has formalised various policies on securities trading, disclosure and codes of conduct, which assist in providing a stronger governance framework for the Company.

Board structure and composition will be reviewed as and when the Company's strategic directions and activities change. The Company will only recommend the appointment of additional directors to the Board where it believes the expertise and value added outweighs the additional cost.

### **Nomination Committee**

The Nomination Committee members are:

- Mr Alan Good, Chair, appointed 30 June 2011;
- Dr Susan Vearncombe appointed 30 June 2011; and
- Mr Milan Jerkovic appointed 30 June 2011.

The Board adopted a Nomination Committee Charter in August 2011 which is available from the Corporate Governance section of the Company's website.

### **Board and Committee Meetings**

Details of director attendances at Board, Audit Committee and Remuneration Committee meetings are detailed in the Directors' Report.

### **Independent Advice**

A director of the Company is entitled to seek independent professional advice (including, but not limited to, legal, accounting and financial advice) at the Company's expense on any matter connected with the discharge of his or her responsibilities, in accordance with the procedures, and subject to the conditions set out in the Board's Charter.

### **Board Performance Evaluation**

The Board performance evaluation is intended to be conducted in the first quarter of the 2013 financial year.

## **Principle 3 – Promote Ethical and Responsible Decision Making**

### **Code of Conduct**

The Board has adopted a formal Corporate Code of Conduct. A copy of the code is made available to all employees of the Company and is also available from the Corporate Governance section of the Company's website.

This code expresses certain basic principles that the Company, directors and employees should follow in all dealings related to the Company. They should show the highest business integrity in their dealings with others, including preserving the confidentiality of other peoples' information, and should conduct the Company's business in accordance with law and principles of good business practice.

### **Whistleblowers Protection**

The Company encourages the reporting of unlawful and unethical behaviour, and protects those who report breaches in good faith. The Corporate Code of Conduct provides protection to whistleblowers, as required by the Corporations Act 2001.

The Corporate Code of Conduct is available from the Corporate Governance section of the Company's website.

### **Securities Trading Policy**

The Board has adopted a formal Securities Trading Policy which is available from the Corporate Governance section of the Company's website. The policy reinforces the requirements of the Corporations Act 2001 in relation to insider trading, as Senior Management are prevented from trading in the Company's shares two weeks prior to the announcement of the quarterly, half-yearly and the full-year reports.

The Company's Securities Trading Policy is consistent with ASX Listing Rules 12.9 to 12.12.

### **Diversity**

The Board adopted a formal Diversity Policy in May 2011. The Company values diversity and recognises the potential benefits it can bring to the organisation's ability to achieve its goals. The policy provides for establishing measurable objectives for achieving gender diversity and on an annual basis report on these outcomes. The policy is available from the Corporate Governance section of the Company's website.

The measurable objectives for achieving gender diversity, the progress towards achieving them and the proportion of women employees in the Australian Company Group, women in senior executive positions and women on the Board are set out in the Human Resources section on page 15.

## **Principle 4 – Safeguard Integrity in Financial Reporting**

### **Audit Committee**

The Audit Committee members are:

- Dr Susan Vearncombe, appointed 23 May 2011, Chair from 1 July 2011;
- Mr Alan Good;
- Mr Alastair Morrison; and
- Dr Garry Lowder, Chair until retirement on 1 July 2011.

All members of the Audit Committee are financially literate and have an appropriate understanding of the industries in which the Company operates. One member, Mr Good, has relevant qualifications and experience by virtue of being a former partner of a major accounting firm. All other details of the members' qualifications and number of meetings held can be found in the Directors' Report.

The Board has adopted a formal Audit Committee Charter. The Charter sets out the roles and responsibilities of the Audit Committee and contains information on the procedures for the selection, appointment and rotation of the external and internal auditors. The Audit Committee Charter is available from the Corporate Governance section of the Company's website.

The composition of the Audit Committee will be assessed on an ongoing basis in light of the Company's overall Board structure and strategic direction.

The external auditor attends the annual general meeting and is available to respond to shareholder questions about the conduct of the audit and the preparation and content of the audit report.

## **Principle 5 – Make Timely and Balanced Disclosure**

### **Continuous Disclosure**

The Board has adopted a formal Disclosure Policy outlining procedure for compliance with ASX continuous disclosure requirements. The Disclosure Policy is available from the Corporate Governance section of the Company's website.

The policy is based upon the Company's desire to promote fair markets, honest management and full and fair disclosure. The disclosure requirements must be complied with in accordance with their spirit, intention and purpose.

The purpose of the policy is to:

- Summarise the Company's disclosure obligations;
- Explain what type of information needs to be disclosed;
- Identify who is responsible for disclosure; and
- Explain how individuals at the Company can contribute.

The Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

## **Principle 6 – Respect the Rights of Shareholders**

### **Shareholder Communication Strategy**

The Board has adopted a formal Shareholder Communication Guidelines and Policy.

All information disclosed to the ASX is posted on the Company's website as soon as it is disclosed to the ASX. When there are briefings to general groups, analysts or investors on the aspects of the Company's operations, the material used in the presentation is released to the ASX and posted on the Company's website. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is released to the market.

In addition, the Company seeks to provide opportunities for shareholders to participate through electronic means. Initiatives to facilitate this include making available on the Company's website all Company announcements, media briefings, details of Company meetings and both press releases and financial reports.

The Shareholder Communication Guidelines and Policy is available from the Corporate Governance section of the Company's website.

## **Principle 7 – Recognise and Manage Risk**

### **Risk Assessment and Management**

The Board is responsible for reviewing, ratifying and monitoring systems of risk management. In August 2011 the Board adopted a Risk Management Policy and Guidelines replacing the Risk Management Statement. This Policy is available from the Corporate Governance section of the Company's website.

Financial and operating risks are addressed through approved policies and procedures covering treasury, financial, contract management and health, safety and environmental activities of the Company.

In particular the Board monitors and assesses key financial risk areas which include that Straits has:

- An effective financial risk management system in place;
- An effective internal control system in place; and
- A system in place for unusual and/or high risk transactions.

Key controls have been identified for each business, and accounting processes with an internal controls framework developed. In addition, a financial certification questionnaire has been implemented for all operating subsidiaries. An internal audit function is outsourced to an external audit firm and there is a Treasury Committee.

In addition to external and internal financial audits, all the Company's operations in Australia and overseas are also subjected to annual external safety and environmental audits to Australian standards. The Company engages an insurance brokering firm and an independent insurance advisor as part of the Company's annual assessment of the coverage for insured assets and risks.

The Company intends to continue to work on improving and enhancing its risk management framework. The results of all the various audits and insurances assessments are reported to the Board at least annually.

## **Financial Reporting**

The integrity of Straits' financial reporting relies upon a sound system of risk management and control. The Chief Executive Officer and the Chief Financial Officer have made the following certifications to the Board:

- The Company's financial reports are complete and present a true and fair view, in all material respects, of the financial position and operational results of the Company and Group, and are in accordance with relevant accounting standards and the Corporations Act 2001;
- That the above statements are founded on a sound system of financial risk management and internal compliance and control systems and which implements the policies adopted by the Board; and
- The Company's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects.

The Board believes that it has a good understanding of the Company's key risks and that they are being managed appropriately.

## **Principle 8 – Remunerate Fairly and Responsibly**

### **Remuneration Committee**

The Remuneration Committee members are:

- Mr Alan Good, Chairman;
- Dr Susan Vearncombe, appointed 23 May 2011;
- Mr Alastair Morrison, appointed 23 May 2011; and
- Dr Garry Lowder, retired 1 July 2011.

The Remuneration Committee held one meeting during the period under review. The Board operates in accordance with the formal Remuneration Committee Charter, which has been adopted by the Board and is available from the Corporate Governance section of the Company's website.

The Remuneration Committee advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Committee members have access to current relevant remuneration data and analyses.

Each member of the senior executive team signs a letter of appointment covering a range of matters including their duties, rights, responsibilities, fees, any entitlements on termination and job description.

Further information on directors' and executives' remuneration, including principles used to determine remuneration is set out in the Directors' Report under the heading 'Remuneration Report'. Participants in equity-based remuneration plans (the Employee Share Acquisition Plan and the Employee Exempt Plan) are not permitted to enter into any transactions that would limit the economic risk of unvested entitlements.

### **Non-Executive Director Remuneration**

Non-executive directors are appointed by letter and remunerated by way of an annual director's fee and a superannuation contribution calculated according to that fee. Non-executive directors are not entitled to any further remuneration by way of termination payments or any staff benefits, and are ineligible to participate in any of the Company's incentive plans.

# Directors' Report

The directors present their report together with the financial statements of Straits Resources Limited and its controlled entities ('the consolidated entity') for the 12 months to 30 June 2012.

## Directors

The directors of the Company in office during the financial period and up to the date of this report are:

| Director                                                                                                                                            | Experience                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Special Responsibilities                                                                                                                  | Appointed / Resigned                           | Classification |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|----------------|
| Alan James Good<br>B.Com<br>(UWA),<br>F.C.A.                                                                                                        | Mr Good is a Chartered Accountant with over 30 years involvement in the mining industry. Mr Good was a partner of PricewaterhouseCoopers (PwC) for over 20 years specialising in providing corporate advisory and audit services and was the Managing Partner of the Perth office for over 6 years. Mr Good retired from PwC in 2003 and now has a number of non-executive board positions.                                                                                                                                                | Non-executive Chairman of the Company<br><br>Chairman of Remuneration Committee<br><br>Member of Audit Committee and Nomination Committee | 10 December 2010                               | Independent    |
| Milan Jerkovic<br>B. App Sc (Geology),<br>Postgraduate Diploma (Mineral Economics),<br>Postgraduate Diploma (Mining)<br>M.Aus.I.M.M.,<br>M.A.I.C.D. | Mr Jerkovic is a qualified geologist with postgraduate qualifications in Mining and Mineral Economics. Mr Jerkovic has over 25 years experience in the mining industry involving resource evaluation, operations, financing, acquisition, project development and general management. Mr Jerkovic has previously been the Chairman of Straits Asia Resources Limited and Chairman of Tritton Resources Limited and a non-executive director of Hargraves Resources Limited. Mr Jerkovic has held positions with WMC, BHP and Nord Pacific. | Chief Executive Officer<br><br>Member of the Nomination Committee                                                                         | 1 November 2010                                | Executive      |
| Garry George Lowder<br>Ph.D (U.C. Berkeley),<br>B.Sc (Hons) (Syd),<br>F.Aus.I.M.M.,<br>M.A.I.C.D.                                                   | Dr Lowder is a geologist with over 40 years experience in research, mineral exploration and senior management, in both the mining industry and state government. Credited with key roles in several major ore discoveries. Former Director General of the New South Wales Department of Mineral Resources, where he established the Discovery 2000 exploration incentive programme.<br><br>Dr Lowder has been Chairman of Malachite Resources Limited since February 1997.                                                                 | Non-executive Director                                                                                                                    | 10 December 2010<br><br>Retired on 1 July 2011 | Independent    |

| Director                                                              | Experience                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Special Responsibilities                                                                                                           | Appointed / Resigned                               | Classification  |
|-----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|-----------------|
| William Edward Alastair Morrison<br>M.A Oxon<br>M.Phil Oxon           | Mr Morrison is a founder Managing Director of Standard Chartered Private Equity. He joined Standard Chartered in April 2002, after 20 years at 3i Group, the leading European private equity house, where he was Director for 3i Asia Pacific. He co-founded 3i's Asia Pacific operations in 1997, having previously run an investment team in London focusing on buy-outs and expansion financing. Mr Morrison has investment experience across a wide range of industries in Europe and Asia. He holds an M.A. degree in Politics, Philosophy and Economics and M.Phil degree in Management Studies from Oxford University.                                                                                                | Non-executive Director<br><br>Member of Audit Committee<br><br>Member of the Remuneration Committee                                | 10 December 2010                                   | Not Independent |
| Dr Susan Vearncombe<br>BSocSci,<br>MSc (Hons),<br>PhD, MAIG,<br>RPGeo | Dr Vearncombe is a highly experienced geologist in the mining and exploration industry and currently Managing Director of Silver Swan Group Limited. Dr Vearncombe has worked internationally on a wide range of commodity styles, has developed key spatial analysis technology and is well published in international scientific journals in the areas of geochemistry, structural geology and mineralisation.                                                                                                                                                                                                                                                                                                             | Non-executive Director<br><br>Chairman of the Audit Committee and Nomination Committee<br><br>Member of the Remuneration Committee | 23 May 2011                                        | Independent     |
| Michael George Gibson<br>B.A<br>LLB<br>LLM                            | Mr Gibson holds a degree in Arts and Law from Macquarie University and a Masters of Law degree from the University of Sydney. He was a partner for 12 years with a leading Australian law firm specialising in advising resource companies on major mine acquisitions, disposals and joint ventures, and on the development of mining and infrastructure projects. Mr Gibson has previously been a non-executive director of Singapore Securities Exchange listed Straits Asia Resources Limited.                                                                                                                                                                                                                            | Executive Director                                                                                                                 | 1 November 2010<br><br>Resigned on 12 June 2012    | Executive       |
| Saul Jonathan Colin Wise                                              | Mr Wise is an experienced corporate lawyer, consultant and company director with significant expertise in the mining and exploration industry and resources, energy and corporate sectors. He spent 24 years with WMC Limited, 10 of which as General Counsel and subsequently, 4 years as Counsel to a New York law firm. He has extensive practical experience in Australia and internationally with a wide range of corporate, operational and legal matters. Mr Wise is a Fellow of both the Australian Institute of Company Directors and the Australasian Institute of Mining and Metallurgy. Mr Wise is currently the non-executive Chairman of St Barbara Limited (ASX: SBM), a position he has held since mid 2004. | Non-executive Director                                                                                                             | 23 February 2012<br><br>Resigned on 24 August 2012 | Independent     |

## **Company Secretary**

Matthew Smith – B.Com (Curtin University), C.A.

Mr Smith joined Straits Resources Limited in November 2006 and has over 10 years experience in the Mining Industry.

## **Principal Activities**

The principal activities of the consolidated entity for the year ended 30 June 2012 were the production and sale of, copper and gold and the exploration for copper and gold. Other than the foregoing and as referred to on pages 7 to 26, there were no significant changes in those activities during the financial period.

## **Dividends**

There was no dividend paid during the year.

## **Review of Operations and Future Developments**

A review of the operations and financial position of the consolidated entity during the financial year ending 30 June 2012, including details of the results of operations, changes in the state of affairs and the likely developments in the operations of the consolidated entity in subsequent financial years, are set out on pages 7 to 26.

Other than as referred to in this report, further information as to likely developments in the operations of the consolidated entity and the likely results of those operations would, in the opinion of the directors, be speculative and/or prejudice the interest of the consolidated entity.

## **Events Subsequent to Balance Date**

Apart from the matters disclosed in this report, there has not arisen in the interval between the end of the financial period and the date of this report, any matter or circumstance that has significantly affected or may significantly affect the operations of the consolidated entity; the results of those operations; or the state of affairs of the consolidated entity in subsequent financial years.

## **Dividend determined**

There has been no dividend determined for the period to 30 June 2012.

## **Environmental Regulations**

The Company's operations are subject to various Commonwealth, State and relevant international environmental regulations governing the protection of the environment in areas ranging from air and water quality, waste emission and disposal, environmental impact assessments, mine rehabilitation and access to, and use of ground water and/or surface water. In particular, some operations are required to conduct certain activities under the environmental protection legislation with development consents of the jurisdiction in which they operate. Such licences and project legal obligations include requirements specific to the relevant site.

The directors are not aware of any material breaches of the Company's licences and all mining and exploration activities have been undertaken in compliance with the relevant environmental regulations.

## Shares Under Option

There are no unissued ordinary shares of Straits under option.

## Shares Issued on the Exercise of Options

There were no ordinary shares of the Company issued during the twelve months to 30 June 2012 on the exercise of options. The Company currently does not have an Employee Share Option Plan.

## Meetings of Directors

The attendance of directors at Board and Committee meetings during the financial year were as follows:

|                                  | Directors' Meetings |    | Audit Committee Meetings |   | Remuneration Committee Meetings |   |
|----------------------------------|---------------------|----|--------------------------|---|---------------------------------|---|
|                                  | A                   | B  | A                        | B | A                               | B |
| Milan Jerkovic                   | 13                  | 13 | -                        | - | -                               | - |
| Garry Lowder                     | -                   | -  | -                        | - | -                               | - |
| Alan Good                        | 13                  | 13 | 3                        | 3 | 1                               | 1 |
| Alastair Morrison <sup>(i)</sup> | 13                  | 11 | 3                        | 2 | 1                               | 1 |
| Michael Gibson                   | 12                  | 12 | -                        | - | -                               | - |
| Susan Vearncombe                 | 13                  | 13 | 3                        | 3 | 1                               | 1 |
| Colin Wise                       | 6                   | 5  | -                        | - | -                               | - |

A = Number of meetings held during the time the Director was a member of the Board and/or Committee

B = Number of meetings attended during the time the Director was a member of the Board and/or Committee

(i) Ravinder Singh Grewal attended as Alternate Director for Alastair Morrison at one meeting.

There were no meetings of the nominations committee during the period.

## Directors' and Officers' Insurance and Indemnity

The Constitution of the Company provides that the Company may indemnify each officer, Director and Secretary against any liability, loss, damage, cost or expense incurred by the officer, Director or Secretary in or arising out of the conduct of any activity of the Company.

In accordance with the Company's Constitution, the Company has entered into Deeds of Indemnity, Access and Insurance with each of the directors of the Company.

The Company has paid a premium and other charges for a Directors and Officers Liability insurance policy for the benefit of the directors, secretary and officers of the Group. The policy prohibits the disclosure of the nature of the liabilities insured and the amount of premium paid.

## Loans to Directors

Limited recourse interest free loans have been provided by the Company to the Chief Executive Officer and Executive Director Corporate and Finance for shares issued pursuant to the Employee Share Acquisition Plan (ESAP).

## Proceedings on Behalf of the Company

No proceedings have been brought or intervened on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001 during the year ended 30 June 2012 or at the date of this report.

## Indemnity of Auditors

The terms of engagement of the Company's external auditor includes an indemnity in favour of the external auditor. This indemnity is in accordance with PricewaterhouseCoopers' (PwC) standard terms of business and is conditional upon PwC acting as external auditor. The Company has not otherwise indemnified or agreed to indemnify the external auditor at any time during the financial year.

## **Non-audit Services**

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's experience and expertise with the Company and/or consolidated entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the period are set out in Note 34 to the accounts.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001. The directors are satisfied the provision of non-audit services by the auditor, as set out in Note 34 to the accounts, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 48.

## **Rounding of Amounts to Nearest Thousand Dollars**

The Company is of a kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission, relating to the rounding off of amounts in the Directors' Report and financial report. Amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

# Remuneration Report

The directors are pleased to present your company's 2012 remuneration report which sets out remuneration information for Straits Resources Limited's non-executive directors, executive directors and other key management personnel.

## REMUNERATION PRINCIPLES AND OVERVIEW

In establishing the executive reward framework the Board has adopted a remuneration strategy intended to support the delivery of long-term shareholder value and to ensure executive rewards reflect achievement.

As a Company developing resource assets in highly cyclical markets, financial results can differ significantly from year to year dependent on the development stage of assets and on pricing of commodities in international markets. It is important to the Company that its remuneration philosophy enables the Company to retain and motivate its executive team to manage through these cycles.

In terms of developing a remuneration strategy the Board has adopted the following remuneration principles:

- Strong relationship between performance and reward;
- A combination of fixed and at risk remuneration;
- Recognition of calibre and skills of executives;
- Transparency of remuneration philosophy; and
- Policy and practice are consistent with industry and community standards.

To support the remuneration principles our remuneration and benefits strategy aims to:

- Maintain fair, consistent and equitable total remuneration practices in alignment with core values, vision and mission;
- Be competitive with the market;
- Build in individual differentiation based on performance and contribution;
- Reward superior performance;
- Reward by aligning remuneration achievement to the success of the Company and individual achievement;
- Attract the best potential candidate, motivate and retain our highest potential and skilled people;
- Ensure sufficient flexibility in the structure of remuneration to adjust to changing economic conditions; and
- Communicate effectively our remuneration and benefits proposition.

To achieve the strategy, Straits will reward employees in a way that reflects the dynamics of the market and the context in which the Company operates. Remuneration will at all times be aligned to the strategic direction and business specific value drivers of Straits.

## USE OF REMUNERATION CONSULTANTS

The remuneration committee of Straits Resources Limited did not employ the services of a remuneration consultant to provide recommendations as defined in section 9B of the *Corporations Act 2001*.

## KEY MANAGEMENT PERSONNEL

Directors of the Company during the period, including experience, qualification and special responsibilities are set out on pages 32 to 33.

The key management personnel of the Company is defined as any director of the Company and those executives that report directly to the Chief Executive Officer or Executive Director. The key management personnel are:

| Name            | Position                                                  |
|-----------------|-----------------------------------------------------------|
| Nic Earner      | Executive General Manager Operations                      |
| David Greenwood | Executive General Manager External Affairs & Exploration  |
| Peter Storey    | Executive General Manager Strategy & Business Development |
| Ivan Jerkovic   | General Manager Exploration                               |

All of the above persons were key management personnel during the year ended 30 June 2012. Set out on pages 43 to 44 are the five highest remunerated executives of the Company and the Group.

## **EXECUTIVE REMUNERATION**

Remuneration packages are based around a combination of the following:

- Fixed remuneration;
- Variable Remuneration;
  - Short-term incentive; and
  - Long-term incentive.

### ***Fixed Remuneration***

Fixed remuneration provides a regular base reward that reflects the job size, role, responsibilities and professional competence of each executive according to their knowledge, experience and accountabilities. A senior executive's fixed remuneration includes:

- Base salary;
- Leased motor vehicle;
- Superannuation;
- Coverage for death and total and permanent incapacity; and
- Salary continuance insurance.

The fixed remuneration will be reviewed annually and any adjustments are approved by the Board after recommendation by the Remuneration Committee. External remuneration data is obtained prior to recommendations being made to ensure that fixed remuneration is in line with general industry and community standards.

The Board considers that executive remuneration must be at levels to attract and retain a talented and capable senior executive team. In the current competitive market the Board is pleased to report that the Company has retained a stable executive team.

There was an adjustment to salaries in October 2011 that took into account CPI increase and general salary movements in the mining industry.

### ***Variable Remuneration – Short Term Incentive (STI) Payments***

The Company's remuneration philosophy recognises the importance of "at risk" or variable pay as an integral component of total potential reward. The Remuneration Committee has established a Short Term Incentive plan structure and process to strongly link executive remuneration to performance and to the creation of value for shareholders.

The Company's STI Plan is an "at risk" cash award program administered by the Remuneration Committee. The Plan offers executives an opportunity to earn a lump sum cash payment of up to 40% of their base salary in the case of Executive Directors, and a maximum of between 15% to 35% of base salary for other executives - the maximum target varies by particular individual role.

Award outcomes are determined through the Remuneration Committee assessment of an executive's progress against a range of goals and specific, measurable targets established by the Committee at the start of the performance year. Performance requirements will provide for 'stretch' goals in addition to achievement of Board approved budget objectives, works programmes and strategic plans.

### ***Aims of STI Plan***

The Remuneration Committee considers that the STI Plan as established will facilitate achievement of the following aims:

- Incentivising superior executive performance in areas of specific challenge;
- Ensuring total target rewards for performance are competitive and appropriate for the results delivered;
- Providing balance to total reward packages sufficient to ensure the Company attracts and retains executives of high calibre and who demonstrate the capacity to manage our international operations successfully; and

- To drive successful execution of business plans and achievement of strategic aims directly aligned with enhanced shareholder value.

### Establishment of goals

For each STI Plan cycle the Remuneration Committee oversees the identification of appropriate performance measures, setting of goals, and endorsement of specific targets for the Senior Executive team. The Remuneration Committee ensures that these elements clearly reflect the factors deemed critical to the Group's strategic and business plans for the relevant year.

### Determination of STI outcomes

At the end of a performance cycle the Remuneration Committee determines the award of STIs to the Senior Executive Team based on assessed performance relative to the goals established. The Remuneration Committee retains the discretion to adjust STI awards in exceptional circumstances, including determining that no award will be paid.

### Timing

STI performance awards were not considered for the current year. First consideration under the STI Plan will be made in November 2012, based on the Remuneration Committee's assessment of performance for the full period from De-merger and Listing of the Company (on 1 February 2011) through to 30 June 2012. Subsequent STI Plan cycles will operate on a financial year basis.

Awards for performance under the STI Plan will be determined and paid only after Group audited financial results are available, and will generally be determined in November of each year.

### Variable Remuneration – Long Term Incentives (LTI)

Long term incentive is provided to key management personnel through their participation in the Company's Employee Share Acquisition Plan (ESAP). Details of the Company's ESAP were set out in the Demerger Scheme Booklet.

Management and senior employees of the Company may be invited to participate in the ESAP – with the Board exercising its discretion when deciding on the allocation of shares under the Plan. The ESAP provides for long term incentives to create shareholder value, with rights being vested to shares when service and performance hurdles are met. No shares were issued under the ESAP during the year ended 30 June 2012.

The shares issued under the ESAP in 2011 were subject to the following conditions:

- the shares were issued at market price and funded by way of an interest free non-recourse loan;
- the value of the shares issued varies according to the executives' role and responsibilities;
- other than in limited circumstances (such as takeover), the executive shares shall vest when:
  - the executive completes three years' service following the issue of the shares; and
  - the performance of Straits shares against the group of companies that form the S&P/ASX300 Metals and Mining Index (Index), with the vesting benefits being:

| Hurdle                                                                                                     | % Vesting                                |
|------------------------------------------------------------------------------------------------------------|------------------------------------------|
| Straits shares TSR is equal to the 50 <sup>th</sup> percentile of the Index                                | 50%                                      |
| Straits shares TSR is between the 51 <sup>st</sup> percentile and 74 <sup>th</sup> percentile of the Index | Between 50% and 100% on a pro rata basis |
| Straits shares TSR is equal to or greater than the 75 <sup>th</sup> percentile of the Index                | 100%                                     |

The allocation of ESAP shares to executives is part of the Company's overall recognition and retention strategy and is intended to reward long-term value creation.

Currently shares issued to employees under the ESAP would (if full vesting conditions were met) constitute 1.75% of the Company's capital.

### **No Hedging on LTI Grants**

The Company does not permit executives to enter into contracts to hedge their exposure to performance shares granted as part of their remuneration package.

### **Directors and non-executive directors**

Fees and payments to directors and non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The Board reviews non-executive directors' fees and payments annually. The Chairman is not present at any discussions relating to determination of his own remuneration.

The Board does not pay additional fees to directors or non-executive directors appointed to Committees nor are fees paid to executives who are appointed to the Board of subsidiary or associated companies.

Non-executive directors' fees are determined within an aggregate non-executive directors' fee pool limit, which is currently \$700,000 per annum.

The Board does not reward non-executive directors with variable remuneration (short term and long term incentives).

## **EMPLOYMENT AGREEMENTS**

Non-Executive Directors are retained by way of letter of appointment.

The Executive Directors being the Chief Executive Officer and the Executive Director Corporate and Finance have their employment terms and conditions formalised in service agreements. The major provisions of the agreements relating to remuneration are set-out below.

Remuneration and other terms of employment for key management personnel are formalised in common law employment contracts in the form of a letter of appointment. The major provisions of the contracts are set out below.

In determining remuneration for key management personnel the Company takes into account the responsibilities of the role and relevant industry data for attracting persons of the calibre and experience of the person in question. As the Group operates diverse businesses in a number of jurisdictions, the Company looks to acquire and retain the services of experienced senior personnel with relevant international experience.

The Board believes that it has been successful in retaining an experienced and effective executive team and that the executive team have been instrumental in negotiating the Company through a time of vulnerability in precarious financial and commodity markets, and which is currently engaged in re-positioning the Company for further growth.

### *Alan Good, Non-Executive Chairman*

Mr Alan Good was appointed on 1 February 2011. Mr Good's appointment does not contemplate a fixed term for Mr Good's appointment as a director.

As Non-Executive Chairman, Mr Good is paid a fee of \$150,000 per annum plus a superannuation contribution equivalent to 10% of the annual fee.

There are no additional fees paid for Committee responsibilities and participation.

*Milan Jerkovic, Chief Executive Officer*

Mr Milan Jerkovic entered into a service agreement which commenced on 1 February 2011. The agreement is not for a fixed term but provides that after 30 months Mr Jerkovic and the Board will enter good faith discussions on succession planning which may have the intent of arranging an orderly transition to a successor as CEO of the Company or may have the intent of affirming the continuation of Mr Jerkovic's appointment for a further mutually agreed period.

Mr Jerkovic's package consists of a base salary of \$945,000, a Company superannuation contribution of 10%, a maintained motor vehicle, spouse travel and telephone expenses. The service agreement also provides for an at risk variable annual short-term incentive, subject to recommendation of the Remuneration Committee and approval of the Board of directors. Should Mr Jerkovic be terminated by the Company (other than for serious or wilful misconduct) there is an entitlement amounting to a maximum of twelve months salary should Mr Jerkovic have completed at least one year's service.

The base salary provided by the agreement is reviewed by the Remuneration Committee in November each year and such review takes into account cost of living increases, performance of the individual and Company performance. No increase was awarded during the year ended 30 June 2012.

*Susan Vearncombe, Non-Executive Director*

Dr Susan Vearncombe was appointed to the Board effective 23 May 2011. Dr Vearncombe's appointment does not contemplate a fixed term for Dr Vearncombe's appointment as a director.

As Non-Executive Director, Dr Vearncombe is paid a fee of \$100,000 per annum plus a superannuation contribution equivalent to 10% of the annual fee.

There are no additional fees paid for Committee responsibilities and participation.

*Garry Lowder, Non-Executive Director*

Dr Garry Lowder retired as Non-Executive Director of Straits as at 1 July 2011.

*Michael Gibson, Executive Director Corporate & Finance*

Mr Michael Gibson resigned as a Director of Straits as at 12 June 2012.

*Colin Wise, Non-Executive Director*

Mr Colin Wise was appointed to the Board effective 23 February 2012. Mr Wise's appointment does not contemplate a fixed term for Mr Wise's appointment as a director.

As Non-Executive Director, Mr Wise is paid a fee of \$100,000 per annum plus a superannuation contribution equivalent to 10% of the annual fee.

There are no additional fees paid for Committee responsibilities and participation.

*Alastair Morrison, Non-Executive Director*

Mr Alastair Morrison does not have a service agreement and is not paid a director's fee. Mr Morrison is appointed to the Board as a nominee of the Company's current largest shareholder, Standard Chartered Private Equity.

*Gail Campbell, Chief Financial Officer*

Ms Gail Campbell resigned as Chief Financial Officer as at 25 June 2012.

*David Greenwood, Executive General Manager – External Affairs & Exploration*

Mr David Greenwood entered into an employment arrangement with the Company which commenced on 1 February 2011. Mr Greenwood's package consists of a base salary of \$324,450, superannuation of 10% of base salary, a fully funded motor vehicle under a novated lease, participation in a Short Term Incentive plan and eligibility to be allocated shares under ESAP. Mr Greenwood is also covered by the Company's Group Life Plan and Salary Continuance Plan.

Mr Greenwood's base salary is reviewed in October each year with such review taking into account a range of factors including performance of the individual and Company performance.

*Peter Storey, Executive General Manager – Strategy & Business Development*

Mr Peter Storey entered into an employment arrangement with the Company which commenced on 1 February 2011. Mr Storey's package consists of a base salary of \$324,450, superannuation of 10% of base salary, the provision of a maintained motor vehicle, participation in a Short Term Incentive plan and eligibility to be allocated shares under ESAP. Mr Storey is also covered by the Company's Group Life Plan and Salary Continuance Plan.

Mr Storey's base salary is reviewed in October each year with such review taking into account a range of factors including performance of the individual and Company performance.

*Nic Earner, Executive General Manager Operations*

Mr Nic Earner entered into an employment arrangement with the Company which commenced on 1 February 2011. Mr Earner's package consists of a base salary of \$339,900, superannuation of 10% of base salary, a motor vehicle allowance of \$34,000 (which is subject to PAYG taxation), participation in a Short Term Incentive plan and eligibility to be allocated shares under ESAP. Mr Earner is also covered by the Company's Group Life Plan and Salary Continuance Plan.

Mr Earner's base salary is reviewed in October each year with such review taking into account a range of factors including performance of the individual and Company performance.

## **DETAILS OF REMUNERATION**

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 *Related Party Disclosures*) and the five highest paid specified executives of the Company and the Group are set out in the following tables. Elements of remuneration relating to STI's and equity are based on personal and Company performance and determined by the Remuneration Committee.

# Key management Personnel of the group

| 2012 (12 months)                               | Short-term benefits  |                      |                   |                                 | Sub total        | Termination payments | Share based payments Amortised over 3 years | TOTAL            |
|------------------------------------------------|----------------------|----------------------|-------------------|---------------------------------|------------------|----------------------|---------------------------------------------|------------------|
|                                                | Cash salary and fees | Short-term incentive | Non-cash benefits | Post-employment Super-annuation |                  |                      |                                             |                  |
|                                                | (A)<br>\$            | (B)<br>\$            | (C)<br>\$         | (D)<br>\$                       | \$               | \$                   | (E)<br>\$                                   | \$               |
| <b>Directors</b>                               |                      |                      |                   |                                 |                  |                      |                                             |                  |
| <i>Non Executives</i>                          |                      |                      |                   |                                 |                  |                      |                                             |                  |
| Alan Good                                      | 150,000              | -                    | -                 | 15,000                          | 165,000          | -                    | -                                           | 165,000          |
| Garry Lowder*                                  | -                    | -                    | -                 | -                               | -                | -                    | -                                           | -                |
| Susan Vearncombe                               | 102,650              | -                    | -                 | 10,265                          | 112,915          | -                    | -                                           | 112,915          |
| Colin Wise                                     | 35,344               | -                    | -                 | 3,534                           | 38,878           | -                    | -                                           | 38,878           |
| Alastair Morrison                              | -                    | -                    | -                 | -                               | -                | -                    | -                                           | -                |
| <b>Subtotal non-executive directors</b>        | 287,994              | -                    | -                 | 28,800                          | 316,794          | -                    | -                                           | 316,794          |
| <i>Executives</i>                              |                      |                      |                   |                                 |                  |                      |                                             |                  |
| Milan Jerkovic                                 | 945,000              | -                    | 143,887           | 94,500                          | 1,183,387        | -                    | 82,581                                      | 1,265,968        |
| Michael Gibson**                               | 594,980              | -                    | 57,909            | 59,498                          | 712,386          | 708,037              | 53,743                                      | 1,474,167        |
| <b>Subtotal executive directors</b>            | 1,539,980            | -                    | 201,795           | 153,998                         | 1,895,773        | 708,037              | 136,324                                     | 2,740,135        |
| <b>Subtotal directors</b>                      | <b>1,827,974</b>     | <b>-</b>             | <b>201,795</b>    | <b>182,798</b>                  | <b>2,212,567</b> | <b>708,037</b>       | <b>136,324</b>                              | <b>3,056,928</b> |
| <b>Other Key Management Personnel</b>          |                      |                      |                   |                                 |                  |                      |                                             |                  |
| Nic Earner^                                    | 370,944              | -                    | -                 | 36,700                          | 407,644          | -                    | 57,676                                      | 465,320          |
| Peter Storey^                                  | 320,842              | -                    | 80,028            | 32,084                          | 432,954          | -                    | 20,645                                      | 453,599          |
| David Greenwood^                               | 307,087              | -                    | 43,613            | 47,209                          | 397,909          | -                    | 20,645                                      | 418,554          |
| Gail Campbell^***                              | 306,749              | -                    | 33,829            | 30,675                          | 371,253          | -                    | 19,662                                      | 390,915          |
| Ivan Jerkovic^                                 | 245,400              | -                    | 25,648            | 24,540                          | 295,588          | -                    | 15,730                                      | 311,317          |
| <b>Subtotal other key management personnel</b> | <b>1,551,022</b>     | <b>-</b>             | <b>183,117</b>    | <b>171,209</b>                  | <b>1,905,347</b> | <b>-</b>             | <b>134,358</b>                              | <b>2,039,705</b> |
| <b>Totals by category</b>                      |                      | <b>3,763,908</b>     |                   | <b>354,007</b>                  | <b>4,117,914</b> | <b>708,037</b>       | <b>270,682</b>                              | <b>5,096,633</b> |

| 2011 (5 months)                                | Short-term benefits  |                      |                   | Post-employment | Sub total        | Share based payments Amortised over 3 years | TOTAL            |
|------------------------------------------------|----------------------|----------------------|-------------------|-----------------|------------------|---------------------------------------------|------------------|
|                                                | Cash salary and fees | Short-term incentive | Non-cash benefits | Super-annuation |                  |                                             |                  |
|                                                | (A)<br>\$            | (B)<br>\$            | (C)<br>\$         | (D)<br>\$       | \$               | (E)<br>\$                                   | \$               |
| <b>Directors</b>                               |                      |                      |                   |                 |                  |                                             |                  |
| <i>Non Executives</i>                          |                      |                      |                   |                 |                  |                                             |                  |
| Alan Good                                      | 62,500               | -                    | -                 | 6,250           | 68,750           | -                                           | 68,750           |
| Garry Lowder                                   | 45,833               | -                    | -                 | 4,583           | 50,416           | -                                           | 50,416           |
| Susan Vearncombe                               | 8,333                | -                    | -                 | 833             | 9,166            | -                                           | 9,166            |
| Alastair Morrison                              | -                    | -                    | -                 | -               | -                | -                                           | -                |
| <b>Subtotal non- executive directors</b>       | 116,666              | -                    | -                 | 11,666          | 128,332          | -                                           | 128,332          |
| <i>Executives</i>                              |                      |                      |                   |                 |                  |                                             |                  |
| Milan Jerkovic                                 | 393,750              | -                    | 9,210             | 39,375          | 442,335          | 26,850                                      | 469,185          |
| Michael Gibson                                 | 256,250              | -                    | 68,682            | 25,625          | 350,557          | 17,474                                      | 368,031          |
| <b>Subtotal executive directors</b>            | 650,000              | -                    | 77,892            | 65,000          | 792,892          | 44,324                                      | 837,216          |
| <b>Subtotal directors</b>                      | <b>766,666</b>       | <b>-</b>             | <b>77,892</b>     | <b>76,666</b>   | <b>921,224</b>   | <b>44,324</b>                               | <b>965,548</b>   |
| <b>Other Key Management Personnel</b>          |                      |                      |                   |                 |                  |                                             |                  |
| Nic Earner^                                    | 128,750              | -                    | 13,367            | 12,875          | 154,992          | 18,752                                      | 173,744          |
| Peter Storey^                                  | 131,250              | -                    | 20,173            | 13,125          | 164,548          | 6,713                                       | 171,261          |
| David Greenwood^                               | 131,250              | -                    | 13,367            | 13,125          | 157,742          | 6,713                                       | 164,455          |
| Gail Campbell^                                 | 125,000              | -                    | 13,367            | 12,500          | 150,867          | 6,393                                       | 157,260          |
| Ivan Jerkovic^                                 | 100,000              | -                    | 13,367            | 10,000          | 123,367          | 5,114                                       | 128,481          |
| <b>Subtotal other key management personnel</b> | <b>616,250</b>       | <b>-</b>             | <b>73,641</b>     | <b>61,625</b>   | <b>751,516</b>   | <b>43,685</b>                               | <b>795,201</b>   |
| <b>Totals by category</b>                      |                      | <b>1,534,449</b>     |                   | <b>138,291</b>  | <b>1,672,740</b> | <b>88,009</b>                               | <b>1,760,749</b> |

The relative proportions of remuneration received that are linked to performance and those that are fixed are as follows:

| Name                                  | Fixed remuneration 2012 | Fixed remuneration 2011 | At risk – short term Incentive 2012 | At risk – short term Incentive 2011 | At risk – equity 2012 | At risk – equity 2011 |
|---------------------------------------|-------------------------|-------------------------|-------------------------------------|-------------------------------------|-----------------------|-----------------------|
| <b>Directors</b>                      |                         |                         |                                     |                                     |                       |                       |
| Alan Good                             | 100%                    | 100%                    | -                                   | -                                   | -                     | -                     |
| Garry Lowder                          | -                       | 100%                    | -                                   | -                                   | -                     | -                     |
| Susan Vearncombe                      | 100%                    | 100%                    | -                                   | -                                   | -                     | -                     |
| Alastair Morrison                     | -                       | -                       | -                                   | -                                   | -                     | -                     |
| Colin Wise                            | 100%                    | -                       | -                                   | -                                   | -                     | -                     |
| Milan Jerkovic                        | 93.48                   | 94.28%                  | -                                   | -                                   | 6.52%                 | 5.72%                 |
| Michael Gibson                        | 48.32                   | 95.25%                  | -                                   | -                                   | 3.65%                 | 4.75%                 |
| <b>Other Key Management Personnel</b> |                         |                         | -                                   |                                     |                       |                       |
| Nic Earner                            | 87.61                   | 89.21%                  | -                                   | -                                   | 12.39%                | 10.79%                |
| Peter Storey                          | 95.45                   | 96.08%                  | -                                   | -                                   | 4.55%                 | 3.92%                 |
| Dave Greenwood                        | 95.07                   | 95.92%                  | -                                   | -                                   | 4.93%                 | 4.08%                 |
| Gail Campbell                         | 94.97                   | 95.93%                  | -                                   | -                                   | 5.03%                 | 4.07%                 |
| Ivan Jerkovic                         | 94.95                   | 96.02%                  | -                                   | -                                   | 5.05%                 | 3.98%                 |

**Notes to tables:**

- ^ Denotes one of the five highest paid executives of the group and the company during the year ended 30 June 2012.  
 \* Garry Lowder retired as a director on 1 July 2011.  
 \*\* Michael Gibson resigned as a director on 12 June 2012.  
 \*\*\* Gail Campbell resigned as Chief Financial Officer on 25 June 2012.  
 (A) Includes cash salary and directors' fees.  
 (B) There were no short-term incentives paid during the year.  
 (C) Includes: car, travel, phone plus applicable fringe benefits tax payable on benefits.  
 (D) Superannuation contributions are paid to meet the Superannuation Guarantee and vary according to seniority and service.  
 (E) The March 2011 issue of Incentive Shares included in share based payments is subject to the ranking of the Total Shareholder Return ("TSR") of the Company's shares relative to the TSR of the S&P/ASX300 Metals and Mining Index ("the Index") for either of the following periods:

| Relevant Period                 | Hurdle                                                                                             | % vesting                                |
|---------------------------------|----------------------------------------------------------------------------------------------------|------------------------------------------|
| 1 March 2011 – 28 February 2014 | Shares TSR is equal to the 50 <sup>th</sup> percentile of the Index                                | 50%                                      |
| Or                              | Shares TSR is between the 51 <sup>st</sup> percentile and 74 <sup>th</sup> percentile of the Index | Between 50% and 100% on a pro rata basis |
| 1 March 2013 – 28 February 2014 | The Shares TSR is equal to or greater than the 75 <sup>th</sup> percentile of the Index            | 100%                                     |

- The implied valuation of the shares issued under the approved ESAP Plan has been determined using a binomial option pricing model for the option value and a Monte-Carlo simulation in regards to calculating the probability of the incentive shares vesting.

|                                     |                  |
|-------------------------------------|------------------|
| Underlying Security spot price      | \$0.5750         |
| Exercise price                      | \$0.5592         |
| Grant date                          | 4 March 2011     |
| Total number of options             | 5,539,160        |
| Expiration date                     | 28 February 2014 |
| Life of options (years)             | 2.99 years       |
| Volatility                          | 90%              |
| Risk free rate                      | 5.16%            |
| Valuation per option                | \$0.1458         |
| Total value of the incentive shares | \$807,610        |

The total value of employee incentive shares included in remuneration is calculated in accordance with Accounting Standard AASB 2. The remuneration amount as calculated will be recognised over the vesting period for each relevant period.

## SHARE-BASED COMPENSATION

### Share-based compensation

#### Share-based compensation - Employee Exempt Plan

A scheme under which shares may be issued by the Company to employees for no cash consideration was approved by the Board on 23 May 2011 and the ASIC exemption relief was published in the ASIC Gazette A045/11 on 7 June 2011. All Australian resident employees are eligible to participate in the scheme.

Under the scheme eligible employees may be offered up to \$1,000 worth of fully paid ordinary shares in the Company annually for no cash consideration. The market value of shares issued under the scheme, measured as the weighted average market price of the previous five trading days, is recognised in the balance sheet as share capital and the income statement as a share based payment.

Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment.

#### Share-based compensation – Employee Share Acquisition Plan (“ESAP”)

The Straits Resources Limited Employee Share Acquisition Plan (“ESAP”) was approved in the process of shareholder approval of the demerger scheme at the Demerger Scheme Meeting on 21 January 2011. The purpose of the plan is to attract, retain, motivate and reward key executive employees.

The plan operates by allowing participants to obtain shares in the Company at market price which are funded by a limited recourse interest free loan provided by the Company. The shares are held in trust. The shares are subject to performance hurdles and if met, are vested. The shares continue to be held in trust and a holding lock is then placed over the shares in the Company until the loan is repaid in full.

## ADDITIONAL INFORMATION

### Equity instrument disclosures relating to key management personnel

| Name            | Year<br>Granted | Value at<br>Grant<br>Date | %<br>Vested | %<br>Forfeited | Financial<br>year in<br>which<br>equity may<br>vest | Minimum<br>total<br>value of<br>grant yet<br>to vest | Maximum<br>total<br>value of<br>grant yet<br>to vest |
|-----------------|-----------------|---------------------------|-------------|----------------|-----------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
|                 |                 | \$                        |             |                |                                                     | \$                                                   | \$                                                   |
| Milan Jerkovic  | 2011            | 246,389                   | nil         | -              | 2014                                                | nil                                                  | 246,389                                              |
| Michael Gibson  | 2011            | 160,349                   | nil         | 100%           | -                                                   | nil                                                  | -                                                    |
| Nic Earner      | 2011            | 172,081                   | nil         | -              | 2014                                                | nil                                                  | 172,081                                              |
| Peter Storey    | 2011            | 61,597                    | nil         | -              | 2014                                                | nil                                                  | 61,597                                               |
| David Greenwood | 2011            | 61,597                    | nil         | -              | 2014                                                | nil                                                  | 61,597                                               |
| Gail Campbell   | 2011            | 58,664                    | nil         | 100%           | -                                                   | nil                                                  | -                                                    |
| Ivan Jerkovic   | 2011            | 46,931                    | nil         | -              | 2014                                                | nil                                                  | 46,931                                               |

- (a) Shares issued under equity granted are all restricted shares.
- (b) The grant date for each share based payment during the period was 4 March 2011.
- (c) The value of ESAP shares granted during the period reflects the value of a share determined in accordance with AASB 2.
- (d) No restricted shares were exercised or lapsed during the period.

## Shares held by key management personnel

| Name                                      | Opening balance<br>1 July 2011 | Issued and<br>Acquired* | Disposed /<br>Forfeited | Balance<br>30 June 2012 |
|-------------------------------------------|--------------------------------|-------------------------|-------------------------|-------------------------|
| <b>Directors</b>                          |                                |                         |                         |                         |
| Alan Good                                 | 34,766                         | 25,000                  | -                       | 59,766                  |
| Garry Lowder                              | 450,000                        | -                       | (450,000)               | -                       |
| Alastair Morrison                         | -                              | -                       | -                       | -                       |
| Susan Vearncombe                          | 50,000                         | -                       | -                       | 50,000                  |
| Colin Wise                                | -                              | 82,000                  | -                       | 82,000                  |
| Milan Jerkovic                            | 8,511,140                      | 833,334                 | -                       | 9,344,474               |
| Michael Gibson                            | 3,950,288                      | 166,667                 | -                       | 4,116,955               |
| <b>Other key management<br/>personnel</b> |                                |                         |                         |                         |
| Nic Earner                                | 1,387,312                      | -                       | -                       | 1,387,312               |
| Peter Storey                              | 1,449,547                      | -                       | -                       | 1,449,547               |
| David Greenwood                           | 1,131,240                      | -                       | (60,000)                | 1,071,240               |
| Gail Campbell                             | 426,227                        | -                       | (426,227)               | -                       |
| Ivan Jerkovic                             | 1,043,578                      | -                       | -                       | 1,043,578               |

\*Issued and acquired shares include issues through, ESAP and acquisitions on the open market.

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors.



M Jerkovic  
Director

Perth  
30 August 2012



## Auditor's Independence Declaration

As lead auditor for the audit of Straits Resources Limited for the period ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Straits Resources Limited and the entities it controlled during the period.

A handwritten signature in black ink that reads 'Douglas Craig'.

Douglas Craig  
Partner  
PricewaterhouseCoopers

Perth  
30 August 2012

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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T: +61 8 9238 3000, F: +61 8 9238 3999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

# **Straits Resources Limited** ABN 30 147 131 977

## **Annual Report - 30 June 2012**

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These financial statements cover the consolidated financial statements for the consolidated entity consisting of Straits Resources Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Straits Resources Limited is a company limited by shares, incorporated and domiciled in Australia. It's registered office and principal place of business is:

Straits Resources Limited  
Level 1  
35 Ventnor Avenue  
WEST PERTH WA 6005

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 7 to 26 and in the Directors' Report on pages 32 to 47, both of which are not part of this financial report.

The financial statements were authorised for issue by the directors on 30 August 2012. The directors have the power to amend and reissue the financial statements in accordance with Australian Accounting Standards.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the company. All press releases, financial reports and other information are available on our website: [www.straits.com.au](http://www.straits.com.au)

**Straits Resources Limited**  
**Consolidated Income Statement**  
**For the year ended 30 June 2012**

|                                                                                                                           | Notes | 2012<br>\$'000<br>(12 months) | 2011<br>\$'000<br>(5 months) |
|---------------------------------------------------------------------------------------------------------------------------|-------|-------------------------------|------------------------------|
| <b>Revenue from continuing operations</b>                                                                                 |       |                               |                              |
| Sales revenue                                                                                                             | 2     | 250,455                       | 121,911                      |
| Other revenue from ordinary activities                                                                                    | 2     | 3,345                         | 2,291                        |
|                                                                                                                           |       | <u>253,800</u>                | <u>124,202</u>               |
| Other income                                                                                                              | 3     | 5,158                         | 1,458                        |
| <b>Expenses</b>                                                                                                           |       |                               |                              |
| Cost of goods sold                                                                                                        | 4     | (243,017)                     | (128,895)                    |
| <b>Other expenses from ordinary activities</b>                                                                            |       |                               |                              |
| Exploration                                                                                                               | 4     | (3,318)                       | (1,729)                      |
| Administration and support                                                                                                | 4     | (15,230)                      | (6,193)                      |
| Sempra offtake agreement buyout                                                                                           | 4     | (105,634)                     | -                            |
| Other                                                                                                                     | 4     | (12,516)                      | (4,774)                      |
| Impairment loss                                                                                                           | 4     | (2,839)                       | -                            |
| Finance costs                                                                                                             | 4     | (11,751)                      | (1,585)                      |
| <b>Loss before income tax</b>                                                                                             |       | <u>(135,347)</u>              | <u>(17,516)</u>              |
| Income tax (expense) / benefit                                                                                            | 5     | (1,325)                       | 1,012                        |
| <b>Loss from continuing operations</b>                                                                                    |       | <u>(136,672)</u>              | <u>(16,504)</u>              |
| Loss from discontinued operations                                                                                         | 14    | (2,532)                       | (2,540)                      |
| <b>Loss for the year</b>                                                                                                  |       | <u>(139,204)</u>              | <u>(19,044)</u>              |
| Loss is attributable to:                                                                                                  |       |                               |                              |
| Owners of Straits Resources Limited                                                                                       |       | (139,224)                     | (19,009)                     |
| Non-controlling interests                                                                                                 |       | 20                            | (35)                         |
|                                                                                                                           |       | <u>(139,204)</u>              | <u>(19,044)</u>              |
|                                                                                                                           |       | <b>Cents</b>                  | <b>Cents</b>                 |
| <b>Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:</b> |       |                               |                              |
| Basic earnings per share                                                                                                  | 42    | (38.2)                        | (5.1)                        |
| Diluted earnings per share                                                                                                | 42    | (38.2)                        | (5.1)                        |
| <i>Earnings per share for loss attributable to the ordinary equity holders of the Company:</i>                            |       |                               |                              |
| Basic earnings per share                                                                                                  | 42    | (38.9)                        | (5.9)                        |
| Diluted earnings per share                                                                                                | 42    | (38.9)                        | (5.9)                        |

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

**Straits Resources Limited**  
**Consolidated Statement of Comprehensive Income**  
**For the year ended 30 June 2012**

|                                                                 | 2012<br>\$'000<br>(12 months) | 2011<br>\$'000<br>(5 months) |
|-----------------------------------------------------------------|-------------------------------|------------------------------|
| Notes                                                           |                               |                              |
| <b>Loss for the year</b>                                        | <b>(139,204)</b>              | <b>(19,044)</b>              |
| <b>Other comprehensive income</b>                               |                               |                              |
| Changes in the fair value of cash flow hedges                   | 30(a) (2,502)                 | 3,362                        |
| Exchange differences on translation of foreign operations       | 185                           | (2,214)                      |
| Exchange differences on translation of discontinued operations  | 931                           | (931)                        |
| Income tax relating to components of other comprehensive income | 5(c) 360                      | (1,009)                      |
| <b>Other comprehensive income for the year, net of tax</b>      | <b>(1,026)</b>                | <b>(792)</b>                 |
| <b>Total comprehensive income for the year</b>                  | <b>(140,230)</b>              | <b>(19,836)</b>              |
| Total comprehensive income for the year is attributable to:     |                               |                              |
| Owners of Straits Resources Limited                             | (140,169)                     | (19,625)                     |
| Non-controlling interests                                       | (61)                          | (211)                        |
|                                                                 | <b>(140,230)</b>              | <b>(19,836)</b>              |

*The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

**Straits Resources Limited**  
**Consolidated Balance Sheet**  
**As at 30 June 2012**

|                                                                         | Notes | 2012<br>\$'000 | 2011<br>\$'000 |
|-------------------------------------------------------------------------|-------|----------------|----------------|
| <b>ASSETS</b>                                                           |       |                |                |
| <b>Current assets</b>                                                   |       |                |                |
| Cash and cash equivalents                                               | 8     | 12,982         | 36,716         |
| Trade and other receivables                                             | 9     | 32,202         | 21,410         |
| Inventories                                                             | 10    | 27,391         | 23,750         |
| Other financial assets                                                  | 11    | 15,159         | 27,904         |
| Derivative financial instruments                                        | 12    | 178            | 3,384          |
| Short term mine development                                             | 13    | 8,013          | 3,804          |
|                                                                         |       | <u>95,925</u>  | <u>116,968</u> |
| Assets classified as held for sale                                      | 14    | 15,894         | 65,823         |
| <b>Total current assets</b>                                             |       | <u>111,819</u> | <u>182,791</u> |
| <b>Non-current assets</b>                                               |       |                |                |
| Receivables                                                             | 15    | 33,504         | 15,274         |
| Other financial assets                                                  | 16    | 359            | -              |
| Derivative financial instruments                                        | 12    | 3,431          | -              |
| Property, plant and equipment                                           | 17    | 45,151         | 38,991         |
| Exploration and evaluation                                              | 18    | 27,172         | 15,579         |
| Mine properties in use                                                  | 18    | 144,766        | 54,785         |
| Deferred tax assets                                                     | 19    | 17,814         | 17,814         |
| <b>Total non-current assets</b>                                         |       | <u>272,197</u> | <u>142,443</u> |
| <b>Total assets</b>                                                     |       | <u>384,016</u> | <u>325,234</u> |
| <b>LIABILITIES</b>                                                      |       |                |                |
| <b>Current liabilities</b>                                              |       |                |                |
| Trade and other payables                                                | 20    | 68,436         | 42,248         |
| Interest bearing liabilities                                            | 21    | 26,011         | 8,276          |
| Deferred revenue                                                        | 24    | 21,920         | -              |
| Derivative financial instruments                                        | 12    | 481            | -              |
| Provisions                                                              | 23    | 4,262          | 2,616          |
| Non interest bearing liabilities                                        | 22    | -              | 250            |
|                                                                         |       | <u>121,110</u> | <u>53,390</u>  |
| Liabilities directly associated with assets classified as held for sale | 14    | 4,307          | 38,007         |
| <b>Total current liabilities</b>                                        |       | <u>125,417</u> | <u>91,397</u>  |
| <b>Non-current liabilities</b>                                          |       |                |                |
| Interest bearing liabilities                                            | 25    | 82,683         | 12,307         |
| Deferred revenue                                                        | 28    | 21,871         | -              |
| Derivative financial instruments                                        | 12    | 1,055          | -              |
| Deferred tax liabilities                                                | 26    | -              | -              |
| Provisions                                                              | 27    | 25,746         | 17,121         |
| <b>Total non-current liabilities</b>                                    |       | <u>131,355</u> | <u>29,428</u>  |
| <b>Total liabilities</b>                                                |       | <u>256,772</u> | <u>120,825</u> |

*The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.*

**Straits Resources Limited**  
**Consolidated Balance Sheet**  
**As at 30 June 2012**  
(continued)

|                                                                          | Notes | 2012<br>\$'000          | 2011<br>\$'000  |
|--------------------------------------------------------------------------|-------|-------------------------|-----------------|
| <b>Net assets</b>                                                        |       | <u><b>127,244</b></u>   | <u>204,409</u>  |
| <b>EQUITY</b>                                                            |       |                         |                 |
| Contributed equity                                                       | 29    | <b>295,941</b>          | 219,921         |
| Reserves                                                                 | 30(a) | <b>(10,464)</b>         | (486)           |
| Accumulated losses                                                       | 30(b) | <u><b>(158,233)</b></u> | <u>(19,009)</u> |
| Capital and reserves attributable to owners of Straits Resources Limited |       | <b>127,244</b>          | 200,426         |
| Non-controlling interests                                                | 31    | <u>-</u>                | <u>3,983</u>    |
| <b>Total equity</b>                                                      |       | <u><b>127,244</b></u>   | <u>204,409</u>  |

*The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.*

**Straits Resources Limited**  
**Consolidated Statement of Changes in Equity**  
**For the year ended 30 June 2012**

|                                                                  | Notes | Contributed<br>equity<br>\$'000 | Reserves<br>\$'000 | Retained<br>earnings<br>\$'000 | Total<br>\$'000  | Non-con-<br>trolling<br>interests<br>\$'000 | Total<br>equity<br>\$'000 |
|------------------------------------------------------------------|-------|---------------------------------|--------------------|--------------------------------|------------------|---------------------------------------------|---------------------------|
| <b>Balance at 1 November 2010</b>                                |       | -                               | -                  | -                              | -                | -                                           | -                         |
| Loss for the period as reported in the 2011 financial statements |       | -                               | -                  | (19,009)                       | (19,009)         | (35)                                        | (19,044)                  |
| Other comprehensive income                                       |       | -                               | (616)              | -                              | (616)            | (176)                                       | (792)                     |
| <b>Total comprehensive income for the year</b>                   |       | -                               | <b>(616)</b>       | <b>(19,009)</b>                | <b>(19,625)</b>  | <b>(211)</b>                                | <b>(19,836)</b>           |
| <b>Transactions with owners in their capacity as owners:</b>     |       |                                 |                    |                                |                  |                                             |                           |
| Contributions of equity, net of transaction costs and tax        | 29    | 219,921                         | -                  | -                              | 219,921          | -                                           | 219,921                   |
| Employee share options - value of employee services              | 30    | -                               | 130                | -                              | 130              | -                                           | 130                       |
| Non-controlling interests on acquisition of subsidiary           | 31    | -                               | -                  | -                              | -                | 4,194                                       | 4,194                     |
|                                                                  |       | <u>219,921</u>                  | <u>130</u>         | <u>-</u>                       | <u>220,051</u>   | <u>4,194</u>                                | <u>224,245</u>            |
| <b>Balance at 30 June 2011</b>                                   |       | <b>219,921</b>                  | <b>(486)</b>       | <b>(19,009)</b>                | <b>200,426</b>   | <b>3,983</b>                                | <b>204,409</b>            |
| Loss for the year                                                |       | -                               | -                  | (139,224)                      | (139,224)        | 20                                          | (139,204)                 |
| Other comprehensive income                                       |       | -                               | (945)              | -                              | (945)            | (81)                                        | (1,026)                   |
| <b>Total comprehensive income for the year</b>                   |       | -                               | <b>(945)</b>       | <b>(139,224)</b>               | <b>(140,169)</b> | <b>(61)</b>                                 | <b>(140,230)</b>          |
| <b>Transactions with owners in their capacity as owners:</b>     |       |                                 |                    |                                |                  |                                             |                           |
| Contributions of equity, net of transaction costs and tax        | 29    | 76,020                          | -                  | -                              | 76,020           | -                                           | 76,020                    |
| Employee share options - value of employee services              | 30    | -                               | 410                | -                              | 410              | -                                           | 410                       |
| Transactions with non-controlling interests                      | 31    | -                               | 3,921              | -                              | 3,921            | (3,921)                                     | -                         |
| Acquisition of non-controlling interest                          | 31    | -                               | (13,364)           | -                              | (13,364)         | -                                           | (13,364)                  |
|                                                                  |       | <u>76,020</u>                   | <u>(9,033)</u>     | <u>-</u>                       | <u>66,987</u>    | <u>(3,921)</u>                              | <u>63,065</u>             |
| <b>Balance at 30 June 2012</b>                                   |       | <b>295,941</b>                  | <b>(10,464)</b>    | <b>(158,233)</b>               | <b>127,244</b>   |                                             | <b>127,244</b>            |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**Straits Resources Limited**  
**Consolidated Statement of Cash Flows**  
**For the year ended 30 June 2012**

|                                                                       | Notes | 2012<br>\$'000   | 2011<br>\$'000 |
|-----------------------------------------------------------------------|-------|------------------|----------------|
| <b>Cash flows from operating activities</b>                           |       |                  |                |
| Loss before tax - continuing operations                               |       | (135,347)        | (17,516)       |
| Finance costs net of interest income                                  |       | 9,641            | 748            |
| Loss on held-for-trading financial assets                             |       | 12,337           | 3,886          |
| Unrealised exchange and hedging (gains)/losses                        |       | (1,309)          | 972            |
| Depreciation and amortisation                                         |       | 21,880           | 6,372          |
| Employee share based payment                                          |       | 546              | 130            |
| Profit on sale of fixed assets                                        |       | (2,856)          | (1,344)        |
| Unrealised gain on time value of options                              |       | (1,383)          | -              |
| Exploration expenditure written off                                   |       | 1,462            | 448            |
| Mineral rights written off                                            |       | 359              | -              |
| Impairment loss                                                       |       | 2,839            | -              |
| Profit on in-specie distribution received                             |       | -                | (54)           |
| (Increase)/decrease in inventories                                    |       | (2,998)          | 7,195          |
| (Increase)/decrease in trade and other receivables                    |       | (9,796)          | (2,545)        |
| Increase/(decrease) in trade and other payables                       |       | 27,826           | 3,695          |
| Increase/(decrease) in provisions                                     |       | 2,317            | 668            |
| Increase/(decrease) in deferred revenue                               |       | 43,014           | -              |
| Interest received                                                     |       | 1,345            | 937            |
| Interest paid                                                         |       | (3,619)          | (843)          |
| Net cash outflow from operating activities of discontinued operations | 14    | (3,113)          | (3,299)        |
| <b>Net cash outflow from operating activities</b>                     |       | <b>(36,855)</b>  | <b>(550)</b>   |
| <b>Cash flows from investing activities</b>                           |       |                  |                |
| Cash upon demerger                                                    |       | -                | 48,737         |
| Proceeds from sale of property, plant and equipment                   |       | 1,177            | 4,709          |
| Payments for property, plant and equipment and mine properties        |       | (103,805)        | (25,373)       |
| Net cash settlement post demerger                                     |       | -                | 19,192         |
| Payments for exploration expenditure                                  |       | (22,420)         | (11,504)       |
| Proceeds from held for trading financial assets                       |       | 4,262            | 549            |
| Payments for held for trading financial assets                        |       | (108)            | -              |
| Cash of discontinued operations transferred to held-for-sale          |       | -                | (2,539)        |
| Proceeds from loan receivable                                         |       | 640              | -              |
| Net cash outflow from investing activities of discontinued operations | 14    | (330)            | (1,584)        |
| <b>Net cash (outflow) / inflow from investing activities</b>          |       | <b>(120,584)</b> | <b>32,187</b>  |
| <b>Cash flows from financing activities</b>                           |       |                  |                |
| Proceeds from issues of shares and other equity securities            |       | 75,909           | -              |
| Transactions with non-controlling interests                           |       | (13,364)         | -              |
| Proceeds from borrowings                                              |       | 85,231           | -              |
| Repayment of borrowings                                               |       | (9,889)          | (1,030)        |
| Finance lease payments                                                |       | (8,193)          | (3,420)        |
| Restricted cash                                                       |       | 888              | 11,825         |
| Net cash outflow from financing activities of discontinued operations | 14    | (145)            | (923)          |
| <b>Net cash inflow from financing activities</b>                      |       | <b>130,437</b>   | <b>6,452</b>   |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

**Straits Resources Limited**  
**Consolidated Statement of Cash Flows**  
**For the year ended 30 June 2012**  
(continued)

|                                                                                          | Notes  | 2012<br>\$'000       | 2011<br>\$'000 |
|------------------------------------------------------------------------------------------|--------|----------------------|----------------|
| <b>Net (decrease) increase in cash and cash equivalents</b>                              |        | <b>(27,002)</b>      | 38,089         |
| Cash and cash equivalents at the beginning of the financial year                         |        | <b>36,716</b>        | -              |
| Effects of exchange rate changes on cash and cash equivalents                            |        | <b>3,268</b>         | (1,341)        |
| Effects of exchange rate changes on cash and cash equivalents of discontinued operations |        | -                    | (32)           |
| <b>Cash and cash equivalents at end of year</b>                                          | 8      | <u><b>12,982</b></u> | <u>36,716</u>  |
| Financing arrangements                                                                   | 21, 25 |                      |                |
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*The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.*

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## **1 Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Consolidated Financial Statements are for the consolidated entity consisting of Straits Resources Limited and its subsidiaries.

### **(a) Basis of preparation**

These general purpose Consolidated Financial Statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*. Straits Resources Limited is a for-profit entity for the purpose of preparing the financial statements.

The presentation currency used in this financial report is Australian dollars.

In the prior year the shareholders of International Coal Holdings Limited (formerly Straits Resources Limited) approved the demerger of the base metals, precious metals and specialty metals segments of the business from the coal business. The demerger was then approved by the courts on 31 January 2011 and became effective on 1 February 2011. As a result the comparative information is for a 5 month period.

#### *(i) Going concern*

The financial statements have been prepared on the basis of going concern which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

During the year ended 30 June 2012, Straits incurred a loss of \$139.2 million and had a cash outflow from operating activities of \$36.9 million.

At 30 June 2012 the Group held cash of \$13.0 million and has net assets of \$127.2 million and a working capital deficiency of \$13.6 million. During the year ended 30 June 2012, the Group has been able to continue to meet working capital requirements principally as a result of capital raised and restructuring finance arrangements.

Production at Mt Muro was significantly below the Group's forecasts in the final quarter of the financial year. Mt Muro requires financial support until December 2012 to be cash flow positive at operating levels. Subject to meeting this funding requirement the Directors expect Mount Muro to begin to generate positive cash flows from June 2013.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as they fall due is dependent upon the Group being successful in:

(a) a reduction of discretionary/contingent expenditures, and

(b) raising additional funding of approximately \$60 million to continue to fund capital and operating activities at Mt Muro and Tritton. If the Group is unable to secure additional funding in an appropriate timeframe it will be unable to continue operations, and in turn, would be unable to continue as a going concern.

As a result of these matters, there is a material uncertainty that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial statements.

The Group currently has a number of funding proposals which it is considering. They are expected to meet the Group's funding requirements.

The Directors believe that the Company has reasonable prospects of securing sufficient funding to fund its operations in the foreseeable future and as a consequence they have no intention to liquidate or cease trading.

## **1 Summary of significant accounting policies (continued)**

### **(a) Basis of preparation (continued)**

#### *(i) Going concern (continued)*

The Directors believe they have reasonable grounds to expect that they can raise these funds in the timeframes required to settle the Group's liabilities and to meet its debts as and when they fall due.

Accordingly, the financial statements have been prepared on a going concern basis, which assumes continuity of operations and realisation of assets and settlement of liabilities in the normal course of business for the foreseeable future.

#### *(ii) Compliance with IFRS*

The Consolidated Financial Statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### *(iii) New and amended standards adopted by the Group*

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affect any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, the adoption of AASB 1054 *Australian Additional Disclosures* and AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* enabled the removal of certain disclosures in relation to commitments and the franking of dividends.

#### *(iv) Early adoption of standards*

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

#### *(v) Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

#### *(vi) Critical accounting estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 7.

### **(b) Principles of consolidation**

#### *(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Straits Resources Limited ('Company' or 'parent entity') as at 30 June 2012 and the results of all subsidiaries for the year then ended. Straits Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity (refer to note 1(i)).

## 1 Summary of significant accounting policies (continued)

### (b) Principles of consolidation (continued)

#### (i) *Subsidiaries (continued)*

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Balance Sheet respectively.

#### (ii) *Joint ventures*

Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in note 39.

#### (iii) *Changes in ownership interests*

The consolidated entity treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the consolidated entity. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received are recognised in a separate reserve within equity attributable to owners of Straits Resources Limited.

When the consolidated entity ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the consolidated entity had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

### (c) Foreign currency translation

#### (i) *Functional and presentation currency*

Items included in the financial statements of each of the consolidated entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Straits Resources Limited's functional and presentation currency.

#### (ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the Consolidated Income Statement, within finance costs. All other foreign exchange gains and losses are presented in the Consolidated Income Statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

## **1 Summary of significant accounting policies (continued)**

### **(c) Foreign currency translation (continued)**

#### *(iii) Foreign operations*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each Consolidated Income Statement and Consolidated Statement of Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### **(d) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Sales revenue comprises of revenue earned from the provision of products to entities outside the company. Sales revenue is recognised when the product is suitable for delivery and:

- (i) risk has been passed to the customer;
- (ii) the quantity of the product can be determined with reasonable accuracy;
- (iii) the product has been dispatched to the customer and is no longer under the physical control of the company;
- (iv) the selling price can be determined with reasonable accuracy.

Concentrate sales revenue represents gross proceeds receivable from the customer. Concentrate sales are initially recognised at estimated sales value when the product is delivered. Adjustments are made for variations in metal price, assay, weight and currency between the time of delivery and the time of final settlement of sales proceeds.

#### *(i) Interest income*

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

#### *(ii) Dividends*

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 1(m).

## **1 Summary of significant accounting policies (continued)**

### **(e) Cash and cash equivalents**

For the purpose of presentation in the Consolidated Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Consolidated Balance Sheet.

### **(f) Trade receivables**

Trade receivables are recognised initially at fair value based on estimated amounts due and subsequently at amortised cost less any provision for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the impairment loss is recognised within other expenses in profit and loss.

When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

### **(g) Income tax**

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## **1 Summary of significant accounting policies (continued)**

### **(g) Income tax (continued)**

Straits Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### *(i) Investment allowances*

Companies within the consolidated entity may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The consolidated entity accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense.

### **(h) Leases**

Leases of property, plant and equipment where the controlled entity has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current or non-current interest bearing liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the consolidated entity as lessee are classified as operating leases (note 36). Operating lease payments are charged to the income statement in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased asset.

### **(i) Business combinations**

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

## **1 Summary of significant accounting policies (continued)**

### **(j) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### **(k) Inventories**

Mining inventories of raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### **(l) Non-current assets (or disposal groups) held for sale and discontinued operations**

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal Group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the Consolidated Balance Sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the Consolidated Balance Sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the Consolidated Income Statement.

## 1 Summary of significant accounting policies (continued)

### (m) Investments and other financial assets

#### **Classification**

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

#### *(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. The equity investments classified as held for trading are managed as part of an investment portfolio in accordance with an investment strategy. The performance of the portfolio is evaluated on a fair value basis and information is provided on that basis for assessment by the directors. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months, otherwise they are classified as non-current.

#### *(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 9) and receivables (note 15) in the balance sheet.

#### *(iii) Available-for-sale investments*

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

#### **Recognition and derecognition**

Purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

#### **Measurement**

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise.

Details on how the fair value of financial instruments is determined are disclosed in note 6.

## 1 Summary of significant accounting policies (continued)

### (m) Investments and other financial assets (continued)

#### **Impairment**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

#### *(i) Assets carried at amortised cost*

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Consolidated Income Statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the Consolidated Income Statement.

Impairment testing of trade receivables is described in note 1(f).

#### *(ii) Assets classified as available-for-sale*

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

### (n) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges) or
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 12. Movements in the hedging reserve in shareholder's equity are shown in note 30.

#### *(i) Fair value hedge*

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

## 1 Summary of significant accounting policies (continued)

### (n) Derivatives and hedging activities (continued)

#### (i) Fair value hedge (continued)

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Consolidated Statement of Comprehensive Income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Where financial instruments are used to hedge economically the movements in the fair values of inventories that are stated at market values, hedge accounting is applied and any gain or loss on the instruments is set against any loss or gain from the movement in the fair value of such inventories. The net effect is presented in the Consolidated Statement of Comprehensive Income.

#### (ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within 'sales'.

#### (iii) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

#### (iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

### (o) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the consolidated entity is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward exchange and commodity contracts is determined using forward exchange market rates at the balance sheet date.

## 1 Summary of significant accounting policies (continued)

### (o) Fair value estimation (continued)

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### (p) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of an item of property, plant and equipment also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on mine property, plant and equipment (excluding land) is calculated on a unit-of-production basis so as to write off the cost of each asset in proportion to the depletion of the proved and probable mineral reserves, or on a straight line basis over the estimated useful life of the asset if the assets useful life is less than the life of mine.

|                                     |              |
|-------------------------------------|--------------|
| - Buildings                         | 20 years     |
| - Plant and equipment               | 6 - 20 years |
| - Computer equipment                | 3 - 5 years  |
| - Furniture, fittings and equipment | 5 years      |
| - Leased motor vehicles             | 3 - 5 years  |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Consolidated Income Statement.

### (q) Exploration and evaluation expenditure

Exploration and evaluation expenditure is carried forward in the financial statements, in respect of areas of interest for which the rights of tenure are current and where:

- (i) such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
- (ii) exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and while active and significant operations in, or in relation to, the area are continuing.

Exploration expenditure incurred that does not satisfy the policy stated above is expensed in the period in which it is incurred. Exploration expenditure that has been capitalised which no longer satisfies the policy stated above is written off in the period in which that decision is made.

Upon commencement of mining activities, deferred exploration and development expenditure is reclassified to mine properties and then amortised in accordance with the accounting policy for mine properties as detailed in note 1(r) below.

## **1 Summary of significant accounting policies (continued)**

### **(q) Exploration and evaluation expenditure (continued)**

The net carrying value of each area of interest is reviewed regularly and, to the extent to which this value exceeds its recoverable value, that excess is provided for or written off in the year in which this is determined.

### **(r) Pre-development properties**

Pre-development properties represent the acquisition costs and/or accumulation of exploration and evaluation expenditure in respect of areas of interest in which economically recoverable reserves have been identified but for which mine development has not commenced.

No amortisation is provided in respect of pre-development properties until they are reclassified as "Mine Properties" following a decision to develop the mine.

### **(s) Mine properties**

Mine properties represent the acquisition costs and/or accumulation of exploration, evaluation and development expenditure in respect of areas of interest in which mining has commenced.

When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the mine property only when substantial future economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on a unit of production basis so as to write off the cost in proportion to the depletion of the proved and probable mineral reserves.

### **(t) Deferred mining expenditure**

#### *(i) Open cut operations*

Certain mining costs, principally those that relate to the stripping of waste and which relate to future economically recoverable ore to be mined, have been capitalised and included in the balance sheet as deferred mining. These costs are deferred or taken to the cost of production as the case may be, so that each tonne of ore mined bears the average costs of waste removal per tonne of ore, as determined by the waste to ore ratio derived from the current pit design and incurs the associated variable contract mining costs specific to the production area from which that ore is mined. The waste to ore ratio and the remaining life of the mine are regularly assessed by the Directors and senior management to ensure the carrying value and rate of deferral is appropriate.

#### *(ii) Underground operations*

Certain mining costs, principally those that relate to levels of development which are expected to be used for shorter periods than the mine life have been capitalised and included in the balance sheet. These costs are deferred on a cost per development metre basis. These costs are then amortised into the profit and loss on a units of production basis over the relevant reserves.

### **(u) Financial guarantee contracts**

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

## **1 Summary of significant accounting policies (continued)**

### **(v) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

### **(w) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### **(x) Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

### **(y) Provisions**

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

The Group has obligations to dismantle, remove, restore and rehabilitate certain items of property, plant and equipment. Under AASB 116 Property, Plant and Equipment, the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period.

## 1 Summary of significant accounting policies (continued)

### (y) Provisions (continued)

AASB 137 Provisions, Contingent Liabilities, and Contingent Assets requires a provision to be raised for the present value of the estimated cost of settling the rehabilitation and restoration obligations existing at balance date. The estimated costs are discounted using a pre tax discount rate that reflects the time value of money. The discount rate must not reflect risks for which future cash flow estimates have been adjusted. The increase in the provision due to the passage of time is recognised as interest expense.

### (z) Employee benefits

#### (i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

#### (ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### (iii) Share-based payments

Share based compensation benefits are provided to employees via the Straits Resources Limited Employee Share Acquisition Plan (ESAP). Information relating to these schemes is set out in note 43.

Share based compensation under the Employee Share Acquisition Plan (ESAP) is measured as the value of the option inherent within shares issued under this plan and is expensed over the vesting period of the shares with a corresponding credit to the Share based Payments Reserve.

#### (iv) Termination benefits

Liabilities for termination benefits, not in connection with the acquisition of an entity or operation, are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised in those employees affected that the terminations will be carried out. The liabilities for termination benefits are recognised in other creditors unless the amount or timing of the payments is uncertain, in which case they are recognised as provisions.

Liabilities for termination benefits expected to be settled within 12 months are measured at the amounts expected to be paid when they are settled. Amounts expected to be settled more than 12 months from the reporting date are measured as the estimated cash outflows, discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future payments, where the effect of discounting is material.

Employee benefit on costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

### (aa) Contributed equity

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

## **1 Summary of significant accounting policies (continued)**

### **(ab) Dividends**

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

### **(ac) Earnings per share**

#### *(i) Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

#### *(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### **(ad) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Directors of Straits Resources Limited.

### **(ae) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

- (i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013\*)*

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013\* but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit and loss.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit and loss and the Group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The Group has not yet decided when to adopt AASB 9.

\* In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

## 1 Summary of significant accounting policies (continued)

### (ae) New accounting standards and interpretations (continued)

- (ii) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interest in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards* (effect 1 January 2013).

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation - Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

AASB 11 will not have any impact on the amounts recognised in the Group's financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The Group is still assessing the impact of these amendments.

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

- (iii) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective from 1 January 2013).

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

## 1 Summary of significant accounting policies (continued)

### (ae) New accounting standards and interpretations (continued)

- (iv) Revised AASB 119 *Employee Benefits*, AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* and AASB 2011-11 *Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. Since Straits Resources Limited does not have any defined benefit obligations, the amendments will not have any impact on the Group's Consolidated Financial Statements. The Group has not yet decided when to adopt the new standard.

- (v) AASB Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* and AASB 2011-12 *Amendments to Australian Accounting Standards arising from Interpretation 20* (effective 1 January 2013)

Interpretation 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. It states that these costs can only be recognised as an asset if they can be attributed to an identifiable component of the ore body, the costs relating to the improved access to that component can be measured reliably and it is probable that future economic benefits associated with the stripping activity (improved access to the orebody) will flow to the entity. The costs will be amortised over the life of the identified component of the ore body. This is different to the group's current accounting policy which is to capitalise stripping costs based on a general waste-to-ore stripping ratio and amortise the costs over the life of the mine. The interpretation must be applied retrospectively and the group will have to write off existing stripping cost asset balances to retained earnings on the date of transition, unless they relate to an identifiable component of the orebody. The group has not yet undertaken a review of its existing stripping cost assets in light of the requirements of the interpretation and hence is unable to quantify the effect, if any, on the amounts recognised in the financial statements. The Group expects to adopt the interpretation from 1 July 2013.

- (vi) AASB 2011-9 *Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income* (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 *Presentation of Financial Statements* which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 July 2012.

- (vii) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## **1 Summary of significant accounting policies (continued)**

### **(af) Parent entity financial information**

The financial information for the parent entity, Straits Resources Limited, disclosed in note 45 has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### *(i) Investments in subsidiaries, associates and joint venture entities*

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Straits Resources Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

#### *(ii) Tax consolidation legislation*

Straits Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Straits Resources Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Straits Resources Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate Straits Resources Limited for any current tax payable assumed and are compensated by Straits Resources Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Straits Resources Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

### **(ag) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Consolidated Balance Sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

### **(ah) Rounding of amounts**

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

**Straits Resources Limited**  
**Notes to the Consolidated Financial Statements**  
**30 June 2012**  
(continued)

## 2 Revenue

|                                        | 2012<br>\$'000<br>(12 months) | 2011<br>\$'000<br>(5 months) |
|----------------------------------------|-------------------------------|------------------------------|
| <b>From continuing operations</b>      |                               |                              |
| <i>Sales revenue</i>                   |                               |                              |
| Mining activities                      | 250,455                       | 121,911                      |
| <i>Other revenue</i>                   |                               |                              |
| Management fees                        | 3                             | 14                           |
| Interest                               | 2,110                         | 838                          |
| Other revenue from ordinary activities | 1,232                         | 1,439                        |
|                                        | <u>253,800</u>                | <u>124,202</u>               |

A portion of the Group's revenue from mining activities in foreign currencies and copper revenue is cash flow hedged. The amounts disclosed above for revenue from mining activities include the effective amount of the derivatives that are used to hedge foreign currency revenue. The amount included in revenue is:

|                                                                 | 2012<br>\$'000<br>(12 months) | 2011<br>\$'000<br>(5 months) |
|-----------------------------------------------------------------|-------------------------------|------------------------------|
| Forward currency in the money contracts - cash flow hedged      | 989                           | 2,670                        |
| Forward commodity out of the money contracts - cash flow hedged | (1,185)                       | -                            |
|                                                                 | <u>(196)</u>                  | <u>2,670</u>                 |

## 3 Other income

|                                                                   | 2012<br>\$'000<br>(12 months) | 2011<br>\$'000<br>(5 months) |
|-------------------------------------------------------------------|-------------------------------|------------------------------|
| Net gain on disposal of property, plant and equipment             | 2,856                         | 1,432                        |
| Net gain on foreign currency derivatives not qualifying as hedges | -                             | 26                           |
| Foreign exchange gains (net)                                      | 919                           | -                            |
| Net gain on time value of option contracts                        | 1,383                         | -                            |
|                                                                   | <u>5,158</u>                  | <u>1,458</u>                 |

## 4 Expenses

|                                                                         | 2012<br>\$'000<br>(12 months) | 2011<br>\$'000<br>(5 months) |
|-------------------------------------------------------------------------|-------------------------------|------------------------------|
| <b>Loss before income tax includes the following specific expenses:</b> |                               |                              |
| Cost of production                                                      |                               |                              |
| Mining activities                                                       | 221,428                       | 122,724                      |
| Total Cost of production                                                | 221,428                       | 122,724                      |
| <i>Depreciation</i>                                                     |                               |                              |
| Plant and equipment                                                     | 2,808                         | 771                          |
| Plant and equipment under finance leases                                | 3,397                         | 2,014                        |
| Total Depreciation                                                      | 6,205                         | 2,785                        |
| <i>Amortisation</i>                                                     |                               |                              |
| Mine properties                                                         | 15,384                        | 3,386                        |
| Total Cost of goods sold                                                | 243,017                       | 128,895                      |
| <i>Exploration</i>                                                      |                               |                              |
| Exploration expenditure                                                 | 1,856                         | 1,281                        |
| Exploration written off                                                 | 1,462                         | 448                          |
|                                                                         | 3,318                         | 1,729                        |
| <i>Finance costs - net</i>                                              |                               |                              |
| Interest and finance charges paid/payable                               | 10,715                        | 1,007                        |
| Unwinding of discounts on provisions                                    | 1,036                         | 578                          |
|                                                                         | 11,751                        | 1,585                        |
| <i>Other</i>                                                            |                               |                              |
| Net foreign exchange losses                                             | -                             | 817                          |
| Marketing                                                               | 139                           | 71                           |
| Net loss on foreign currency derivatives not qualifying as hedges       | 40                            | -                            |
| Loss on fair value of listed securities held for trading                | 12,337                        | 3,886                        |
|                                                                         | 12,516                        | 4,774                        |
| <i>Administration and support</i>                                       |                               |                              |
| Australia                                                               | 13,484                        | 5,873                        |
| Asia                                                                    | 1,746                         | 320                          |
|                                                                         | 15,230                        | 6,193                        |
| <i>Impairment loss</i>                                                  |                               |                              |
| Impairment Loss - Mt Muro                                               | 1,975                         | -                            |
| Impairment loss - Corporate                                             | 864                           | -                            |
|                                                                         | 2,839                         | -                            |

#### 4 Expenses (continued)

|                                                                | 2012<br>\$'000<br>(12 months) | 2011<br>\$'000<br>(5 months) |
|----------------------------------------------------------------|-------------------------------|------------------------------|
| <i>Included within the above functions are the following:</i>  |                               |                              |
| Employee benefits expense (includes employee benefit accruals) | 53,486                        | 11,752                       |
| Superannuation expense                                         | 753                           | 305                          |
| Total employee benefits expense                                | <u>54,239</u>                 | <u>12,057</u>                |

##### (a) Impairment

The Group have reviewed the carrying amount of assets of the Group and have written down the plant and equipment held for sale at Mt Muro mine by \$1,975,000 (2011: Nil) and receivables for Corporate entities by \$864,000 (2011: Nil). The recoverable amount of the assets are the fair value less costs to sell.

##### (b) Sempra offtake agreement buyout

During the year the Group restructured the existing Tritton Copper Mine offtake agreement with J.P. Morgan Metals & Concentrates. Under the restructuring arrangement, in exchange for an upfront cash payment of \$96,963,000, J.P. Morgan terminated the pre-existing offtake agreement.

A new offtake agreement was entered into with J.P. Morgan for all copper concentrates from Tritton until the end of 2013, to be priced in line with the significantly lower prevailing market offtake terms for copper concentrate. Tritton had an option to terminate the new offtake agreement with J.P. Morgan for shipments scheduled from 1 July 2012. Tritton exercised this option during the year and an amount of \$8,671,000 was paid to J.P. Morgan for exercising the option.

#### 5 Income tax expense/(benefit)

##### (a) Income tax expense/(benefit)

|                                                                                 | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------------------------------------------------------------------|----------------|----------------|
| Current tax expense                                                             | -              | 268            |
| Deferred tax benefit                                                            | <u>360</u>     | <u>(774)</u>   |
|                                                                                 | <u>360</u>     | <u>(506)</u>   |
| Income tax expense/(benefit) is attributable to:                                |                |                |
| Loss from continuing operations                                                 | 1,325          | (1,012)        |
| Loss from discontinued operations                                               | <u>(965)</u>   | <u>506</u>     |
| Aggregate income tax expense/(benefit)                                          | <u>360</u>     | <u>(506)</u>   |
| Deferred income tax (benefit) expense included in income tax expense comprises: |                |                |
| Decrease in deferred tax assets (note 19)                                       | 931            | 238            |
| Decrease in deferred tax liabilities (note 26)                                  | <u>(571)</u>   | <u>(1,012)</u> |
|                                                                                 | <u>360</u>     | <u>(774)</u>   |

## 5 Income tax expense/(benefit) (continued)

### (b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable/(receivable)

|                                                                                         | 2012<br>\$'000   | 2011<br>\$'000  |
|-----------------------------------------------------------------------------------------|------------------|-----------------|
| Loss from continuing operations before income tax expense                               | (135,347)        | (17,516)        |
| Loss from discontinued operations before income tax expense                             | (3,497)          | (2,034)         |
|                                                                                         | <u>(138,844)</u> | <u>(19,550)</u> |
| Tax at the Australian tax rate of 30.0%                                                 | (41,654)         | (5,865)         |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: |                  |                 |
| Non deductible expenses                                                                 | 344              | 86              |
| Non deductible items discontinued operations                                            | -                | 513             |
| Tax losses not recognised                                                               | 47,891           | 12,992          |
| Recognition of previously unrecognised temporary differences                            | (6,865)          | (8,272)         |
| Temporary differences not recognised                                                    | (63)             | -               |
| Non assessable gain on sale of subsidiary                                               | (896)            | -               |
| Share-based payments                                                                    | 156              | 39              |
| Losses of foreign operations not recognised                                             | 1,452            | -               |
| Sundry items                                                                            | (5)              | 1               |
| Income tax expense/(benefit)                                                            | <u>360</u>       | <u>(506)</u>    |

### (c) Tax expense (income) relating to items of other comprehensive income

|                              | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------------------|----------------|----------------|
| Cash flow hedges (note30(a)) | <u>(360)</u>   | <u>1,009</u>   |

### (d) Tax losses

|                                                                       | 2012<br>\$'000 | 2011<br>\$'000 |
|-----------------------------------------------------------------------|----------------|----------------|
| Unused tax losses for which no deferred tax asset has been recognised | 282,531        | 143,833        |
| Potential tax benefit @ 30.0%                                         | <u>84,759</u>  | <u>43,150</u>  |

## **6 Financial risk management**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments.

Risk management is carried out by a central treasury department (Group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange, commodity price risks and ageing analysis for credit risk.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

### **(a) Market risk**

#### *(i) Foreign exchange risk*

Generally, natural hedges, forward contracts and options are used to manage certain foreign exchange risk. The Group's currency exposure based on the information provided to key management is mainly in cash and cash equivalents, receivables, loans and forward exchange contracts.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The majority of these exposures are generated by commodity sales contracts which are typically denominated in US dollars, as well as associated receivables.

The Group operates internationally and is exposed to foreign exchange arising from various foreign currency exposures, primarily with respect to the US dollar. Additional foreign exchange risk arises from exposure to the Indonesian Rupiah.

External foreign exchange contracts are designated at Group level as hedges of foreign exchange risk on revenue.

For an analysis of the exposure to foreign exchange risk on trade receivables and trade payables refer to notes 15 and 20 respectively.

#### *Group sensitivity*

Based on the financial instruments held at 30 June 2012, had the Australian dollar weakened/strengthened by 10% against these foreign currencies with all other variables held constant, the Group's post tax loss for the period would have been \$3,531,000 lower/higher (2011: loss would have been \$240,000 lower/higher), mainly as a result of foreign exchange gains/losses on translation of cash and cash equivalents, interest bearing loans, receivables and payables denominated in foreign currencies. Equity would have been \$8,635,000 lower/higher (2011: \$3,981,000 lower/higher) had the Australian dollar weakened/strengthened by 10% against the US dollar, arising mainly from foreign currency contracts. For the method used to manage the foreign exchange risk refer to note 12(a).

#### *(ii) Interest rate risk*

Interest rate risk arises as a result of the repricing of investments, interest bearing receivables and borrowings and is affected by the length of the repricing period.

## 6 Financial risk management (continued)

### (a) Market risk (continued)

#### (ii) Interest rate risk (continued)

The significance and management of the risks to the Group are dependent on a number of factors including:

- interest rates (current and forward) and the currencies that the borrowings are drawn;
- level of cash, liquid investments and borrowings and their term;
- maturity dates of investments and borrowings;
- proportion of investments and borrowings that are fixed rate or floating rate.

The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

The risk is measured using market and cash flow forecasting.

#### Group sensitivity

At 30 June 2012, if interest rates had changed by +/- 50 basis points from the weighted average period end rates with all other variables held constant, post tax loss for the period would have been \$286,000 higher/lower (2011: \$167,000 higher/lower), mainly as a result of lower/higher interest from cash and cash equivalents and finance leases.

The exposure of the Group's interest bearing liabilities at balance sheet date that have exposure to interest rate changes at the contractual repricing dates are as follows:

|                  | June 2012     | June 2011  |
|------------------|---------------|------------|
|                  | \$'000        | \$'000     |
| 6 months or less | -             | -          |
| 6 - 12 months    | 22,321        | 22         |
| 1 - 5 years      | 72,490        | 798        |
|                  | <u>94,811</u> | <u>820</u> |

The Group was also exposed to interest bearing liabilities as at 2011 that had exposure to interest rate changes at the contractual repricing dates which were held by the Magontec Group and are reported as held for sale (see note 14). These liabilities totalled \$13,369,000 at 30 June 2011. At 30 June 2012 the Group has no exposure to any liabilities related to the Magontec Group.

#### (iii) Commodity Price risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Group's commodity inputs and outputs.

The Group is exposed to commodity price risk arising from revenue derived from sales of copper concentrate, gold and silver. This risk is managed through contractual arrangements with customers and use of derivative instruments such as forward contracts.

Copper and Gold price risk has been managed by fixing a portion of future forecast sales.

At 30 June 2012, trade debtors in relation to sale of commodities are not subject to further price adjustments. As such any fluctuation in commodity prices at that date would not have impacted on the Group's profit and loss.

## 6 Financial risk management (continued)

### (a) Market risk (continued)

#### (iv) Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to foreign exchange risk and interest rate risk.

|              | Foreign exchange risk |                  |                  |                  | Interest rate risk |                  |                  |                  |
|--------------|-----------------------|------------------|------------------|------------------|--------------------|------------------|------------------|------------------|
|              | -10%                  |                  | +10%             |                  | -50 basis pts      |                  | +50 basis pts    |                  |
| Consolidated | Profit<br>\$'000      | Equity<br>\$'000 | Profit<br>\$'000 | Equity<br>\$'000 | Profit<br>\$'000   | Equity<br>\$'000 | Profit<br>\$'000 | Equity<br>\$'000 |
| 2012         | (3,531)               | 8,635            | 3,531            | (8,635)          | 286                | -                | (286)            | -                |
| 2011         | 240                   | 3,981            | (240)            | (3,981)          | (167)              | -                | 167              | -                |

### (b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to trade customers, including outstanding receivables and committed transactions.

The Group have policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and, where necessary is effectively eliminated or substantially reduced by using bank and insurance instruments to secure payment for materials supplied and sold. Derivative counterparties and cash transactions are limited to high credit quality financial institutions with external credit ratings. The Group have policies that limit the amount of credit exposure to any one financial institution.

The age analysis of trade receivables past due but not impaired is disclosed in note 9. The carrying amount of trade receivables individually determined to be impaired and the movement in the related allowance for impairment are also disclosed in note 9.

The carrying amount of financial assets recorded in the financial statements are grossed up for any allowances for impairment, representing the Group's maximum exposure to credit risk.

Credit risk further arises in relation to financial guarantees given to certain parties, refer to note 25(d).

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, liquid investments and committed credit facilities to meet the Group's commitments as they arise. As at 30 June 2012 the Group held deposits at call of \$2,000,000 (2011: \$7,564,000) that are expected to readily generate cash inflows for managing liquidity risk.

Liquidity risk management covers daily, short-term and long-term needs. The appropriate levels of liquidity are determined by both the nature of the Group's business and its risk profile.

To the extent the Group has liabilities on its cash flow hedges, the Group expects to produce sufficient copper from its operations to deliver into its committed hedge contracts.

#### Maturities of financial liabilities

The following tables detail the Group's remaining contractual maturity for its financial liabilities (refer note 25 for financing facilities). The amounts presented represent the future undiscounted principal and interest cash flows.

## 6 Financial risk management (continued)

### (c) Liquidity risk (continued)

|                                                                                   | Less than<br>1 year<br>\$'000 | Between<br>1 and 5<br>years<br>\$'000 | Over 5<br>years<br>\$'000 |
|-----------------------------------------------------------------------------------|-------------------------------|---------------------------------------|---------------------------|
| <b>Group at 30 June 2012</b>                                                      |                               |                                       |                           |
| <b>Non-derivatives</b>                                                            |                               |                                       |                           |
| Non-interest bearing                                                              | 68,714                        | -                                     | -                         |
| Variable interest rate instruments                                                | 36,043                        | 94,422                                | 1,061                     |
| Other fixed interest loans                                                        | 858                           | 2,424                                 | -                         |
| Lease and hire purchase liabilities                                               | 3,587                         | 8,091                                 | -                         |
| <b>Total non-derivatives</b>                                                      | <b>109,202</b>                | <b>104,937</b>                        | <b>1,061</b>              |
| <b>Derivatives</b>                                                                |                               |                                       |                           |
| Gross settled (forward foreign exchange contracts - cash flow hedges) - (inflow)  | 9,715                         | -                                     | -                         |
| Gross settled (forward foreign exchange contracts - cash flow hedges) - (outflow) | (9,779)                       | -                                     | -                         |
|                                                                                   | (63)                          | -                                     | -                         |
| <b>Group at 30 June 2011</b>                                                      |                               |                                       |                           |
| <b>Non-derivatives</b>                                                            |                               |                                       |                           |
| Non-interest bearing                                                              | 42,248                        | -                                     | -                         |
| Variable interest rate instruments                                                | 79                            | 317                                   | 1,219                     |
| Other fixed interest loans                                                        | 710                           | 2,995                                 | -                         |
| Lease and hire purchase liabilities                                               | 8,903                         | 9,872                                 | -                         |
| <b>Total non-derivatives</b>                                                      | <b>51,940</b>                 | <b>13,184</b>                         | <b>1,219</b>              |
| <b>Derivatives</b>                                                                |                               |                                       |                           |
| Gross settled (forward foreign exchange contracts - cash flow hedges) - (inflow)  | 56,980                        | -                                     | -                         |
| Gross settled (forward foreign exchange contracts - cash flow hedges) - (outflow) | (53,595)                      | -                                     | -                         |
|                                                                                   | 3,384                         | -                                     | -                         |

### (d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

## 6 Financial risk management (continued)

### (d) Fair value measurements (continued)

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2012 and 30 June 2011:

|                                | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000 |
|--------------------------------|-------------------|-------------------|-------------------|-----------------|
| <b>30 June 2012</b>            |                   |                   |                   |                 |
| <b>Assets</b>                  |                   |                   |                   |                 |
| Financial assets               |                   |                   |                   |                 |
| Trading securities             | 13,423            | -                 | -                 | 13,423          |
| Other (deferred consideration) | -                 | -                 | 1,736             | 1,736           |
| Derivatives for hedging        | -                 | 3,609             | -                 | 3,609           |
| <b>Total assets</b>            | <b>13,423</b>     | <b>3,609</b>      | <b>1,736</b>      | <b>18,768</b>   |
| <b>Liabilities</b>             |                   |                   |                   |                 |
| Derivatives used for hedging   | -                 | 1,536             | -                 | 1,536           |
| <b>Total liabilities</b>       | <b>-</b>          | <b>1,536</b>      | <b>-</b>          | <b>1,536</b>    |
| <b>30 June 2011</b>            |                   |                   |                   |                 |
| <b>Assets</b>                  |                   |                   |                   |                 |
| Financial assets               |                   |                   |                   |                 |
| Trading securities             | 26,168            | -                 | -                 | 26,168          |
| Other (deferred consideration) | -                 | -                 | 1,736             | 1,736           |
| Derivatives for hedging        | -                 | 3,384             | -                 | 3,384           |
| <b>Total assets</b>            | <b>26,168</b>     | <b>3,384</b>      | <b>1,736</b>      | <b>31,288</b>   |

Investments classified as held for trading are fair valued by comparing to the published price quotation in an active market.

The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature.

Refer to note 25(f) for the carrying amounts and fair values of borrowings at balance date.

### (e) Equity price risk

The Group is exposed to equity price risks arising from equity investments. Equity investments are held both for strategic and trading purposes. Refer to note 1(m)(i).

#### *Equity price sensitivity*

The sensitivity analysis below has been determined on the exposure to equity price risks at the reporting date.

At reporting date, if the inputs to the valuation model had been 10% higher/lower while all other variables were held constant:

- net loss for the Group would decrease/increase by \$940,000 (2011: \$1,832,000 decrease/increase) as a result of the changes in fair value of other financial assets held for trading.

## 7 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on management's historical experience and knowledge of relevant facts and circumstances at that time.

The Straits' Group makes estimates and judgments concerning the future. The resulting accounting estimates and judgments may differ from the related actual results and may have a significant effect on the carrying amounts of assets and liabilities within the next financial period and on the amounts recognised in the financial statements. Information on such estimates and judgments is contained in the accounting policies and/or notes to the financial statements.

### *(i) Reserve estimates*

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors. Estimating the quality and/or grade of reserves requires the size, shape and depth of ore bodies to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data. The Group is required to determine and report ore reserves in Australia under the principles incorporated in the Australasian Code for Reporting of Mineral Resources and Ore Reserves December 2004, known as the JORC Code. The JORC Code requires the use of reasonable investment assumptions to calculate reserves.

As the economic assumptions used to estimate reserves change from period to period, and as additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- determination of ore reserves
- recognition of deferred tax on mineral rights and exploration recognised in acquisitions
- deferred mining expenditure and capitalisation of underground development costs
- units of production method of depreciation and amortisation

### *(ii) Estimation for the provision for rehabilitation and dismantling*

Provision for rehabilitation and dismantling property, plant and equipment is estimated taking into consideration facts and circumstances available at the balance sheet date. This estimate is based on the expenditure required to undertake the rehabilitation and dismantling, taking into consideration time value.

### *(iii) Impairment of property, plant and equipment, deferred exploration and development expenditure and mine properties*

The Group reviews for impairment of property, plant and equipment, deferred exploration and development expenditure and mine properties in accordance with the accounting policy stated in note 1(j). With the exception of deferred exploration, the recoverable amount of these assets has been determined based on higher of the assets' fair value less costs to sell and value in use. Recoverable amount assessments are principally based on discounted cashflow analysis. This requires the use of estimates and judgements in relation to a range of inputs including:

- commodity prices
- exchange rates
- reserves and mine planning scheduling
- production costs

## 7 Critical accounting estimates and judgements (continued)

- (iii) *Impairment of property, plant and equipment, deferred exploration and development expenditure and mine properties (continued)*
- discount rates

The Group has regard to external consensus forecasts of key assumptions where available (e.g. commodity price and exchange rates).

(iv) *Income taxes*

Judgement is required in determining the provision for income taxes. The Group recognises liabilities of anticipated tax based on estimates of taxes due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Deferred tax assets have been recognised based on the Group's probable future taxable income.

(v) *Other financial assets*

Management has applied estimates and judgements in order to determine the fair value of deferred performance consideration receivable. In determining the fair value management has made assumptions as to discount rates, estimated probability of achieving the performance criteria, foreign exchange rates and risk.

## 8 Current assets - Cash and cash equivalents

|                  | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------|----------------|----------------|
| Bank balances    | 10,982         | 29,152         |
| Deposits at call | 2,000          | 7,564          |
|                  | <u>12,982</u>  | <u>36,716</u>  |

### (a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial period as shown in the statement of cash flows as follows:

|                                     | 2012<br>\$'000 | 2011<br>\$'000 |
|-------------------------------------|----------------|----------------|
| Cash and cash equivalents           | 12,982         | 36,716         |
| Balance per statement of cash flows | <u>12,982</u>  | <u>36,716</u>  |

### (b) Cash at bank and on hand

Cash at bank accounts are interest bearing attracting normal market interest rates.

### (c) Fair value

The carrying amount for cash and cash equivalents equals the fair value.

## 9 Current assets - Receivables

|                       | 2012<br>\$'000 | 2011<br>\$'000 |
|-----------------------|----------------|----------------|
| Net trade receivables | 6,697          | 5,765          |
| Other debtors*        | 16,830         | 10,170         |
| Other receivables     | 5,341          | 1,866          |
| Prepayments           | 3,334          | 3,609          |
|                       | <u>32,202</u>  | <u>21,410</u>  |

\* Other debtors is primarily composed of receivables in relation to Australian GST refund claims and Indonesian VAT refund claims.

### (a) Provision for impairment of receivables

The average credit period on sales is within 30 days. No interest is charged on trade receivables.

Movements in the provision for impairment of receivables are as follows:

|                                                       | 2012<br>\$'000 | 2011<br>\$'000 |
|-------------------------------------------------------|----------------|----------------|
| Opening balance                                       | (438)          | -              |
| Provision for impairment recognised during the period | -              | (634)          |
| Transferred to assets held for sale (note 14)         | -              | 178            |
| Overprovision amounts reversed                        | 419            | -              |
| Exchange differences                                  | 19             | 18             |
|                                                       | <u>-</u>       | <u>(438)</u>   |

The trade receivables and other debtors within receivables do not contain impaired assets and are not past due. Based on the credit history of these other debtors, it is expected that these amounts will be received when due.

The carrying amount of trade and other receivables approximate their fair values.

### (b) Foreign exchange and interest rate risk

Refer to note 15 for an analysis of Group's exposure to foreign currency risk in relation to trade and other receivables.

### (c) Fair value risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

### (d) Credit risk

Information concerning the credit risk of both current and non-current receivables is set out in the non-current receivables note 15.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The Group does not hold any collateral as security. Refer to note 6 for more information on the risk management policy of the Group.

## 10 Current assets - Inventories

|                               | 2012<br>\$'000 | 2011<br>\$'000 |
|-------------------------------|----------------|----------------|
| <b>Mining inventories</b>     |                |                |
| Production supplies - at cost | 14,102         | 15,999         |
| Work in progress - at cost    | 13,289         | 7,751          |
|                               | <u>27,391</u>  | <u>23,750</u>  |

Write downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2012 amounted to \$2,843,000 (2011: \$3,663,000). The expense has been included in 'cost of sales' in profit or loss.

## 11 Current assets - Other financial assets

|                                                                              | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------------------------------------------------------------------|----------------|----------------|
| Equity securities listed on Australian Stock Exchange (ASX listed companies) | 13,423         | 26,168         |
| Fair value of deferred consideration on disposal of Whim Creek               | 1,736          | 1,736          |
|                                                                              | <u>15,159</u>  | <u>27,904</u>  |

Changes in fair values of financial assets at fair value through profit or loss are recorded in other income or other expenses in the income statement.

All other financial assets at fair value through profit or loss are denominated in the Australian currency. For an analysis of the sensitivity to price risk, refer to note 6.

Changes in the value of deferred consideration are recognised in other comprehensive income until the contractual conditions allowing recognition of a receivable have been met. Once recognised as a receivable, any amounts previously recognised in other comprehensive income are reclassified to the profit and loss statement and any further changes in value recognised in profit and loss.

### (a) Financial assets Classification

The carrying amounts of the above financial assets are classified as follows:

|                        | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------------|----------------|----------------|
| Held for trading       | 13,423         | 26,168         |
| Deferred consideration | 1,736          | 1,736          |
|                        | <u>15,159</u>  | <u>27,904</u>  |

### (b) Risk exposure and fair value measurements

Information about the Group exposure to equity price risk is provided in note 6.

## 12 Derivative financial instruments

|                                                           | 2012<br>\$'000 | 2011<br>\$'000 |
|-----------------------------------------------------------|----------------|----------------|
| <b>Current assets</b>                                     |                |                |
| Forward currency contracts at fair value                  | -              | 3,384          |
| Forward commodity contracts - cash flow hedges            | 178            | -              |
| Total current derivative financial instrument assets      | 178            | 3,384          |
| <b>Non-current assets</b>                                 |                |                |
| Forward commodity contracts - cash flow hedges            | 3,431          | -              |
| Total non-current derivative financial instruments        | 3,431          | -              |
| <b>Current liabilities</b>                                |                |                |
| Forward currency contracts at fair value                  | 63             | -              |
| Forward commodity contracts - cash flow hedges            | 418            | -              |
| Total current derivative financial instrument liabilities | 481            | -              |
| <b>Non-current liabilities</b>                            |                |                |
| Forward commodity contracts - cash flow hedges            | 1,055          | -              |
|                                                           | 2,073          | 3,384          |

### (a) Instruments used by the group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates and to movements in the prices of Copper and Gold in accordance with the Group's financial risk management policies (refer to note 6).

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the balance sheet by removing the related amount from other comprehensive income.

The potential risk of counterparties to meet their obligations under the respective contracts of maturity exposes the Group and counterparties to credit risk. This risk arises on forward exchange contracts with unrealised gains and losses. When the resulting asset is measured at fair value, the maximum exposure to risk at the reporting date will equal the carrying amount.

#### (i) Forward exchange contracts - cash flow hedges

The majority of the Group's revenue is denominated in US dollars.

In order to protect against exchange rate movements, as they impact on the Tritton copper operations, the Group has entered into forward exchange contracts to sell US dollars.

At the balance sheet date, the details of outstanding forward foreign exchange contracts are:

## 12 Derivative financial instruments (continued)

### (a) Instruments used by the group (continued)

#### (i) Forward exchange contracts - cash flow hedges (continued)

##### Tritton Copper Operation

|                        | Sell US<br>dollars<br>30 June<br>2012<br>\$'000 | Sell US<br>dollars<br>30 June<br>2011<br>\$'000 | Forward<br>contracts<br>A\$/US\$ rate<br>30 June<br>2012 | Forward<br>contracts<br>A\$/US\$ rate<br>30 June<br>2011 |
|------------------------|-------------------------------------------------|-------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|
| Buy Australian dollars |                                                 |                                                 |                                                          |                                                          |
| Maturity               |                                                 |                                                 |                                                          |                                                          |
| Less than one year     | 10,000                                          | 57,250                                          | 1.0293                                                   | 0.9994                                                   |

Amounts disclosed above represent currency sold measured at the contracted rate.

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into profit and loss when the hedged item is recognised. Any ineffective portion is recognised in profit and loss immediately. During the year ended 30 June 2012 the ineffective portion of hedges that was transferred to profit and loss was a loss of \$40,070 (2011: a gain of \$26,254).

#### (ii) Forward gold contracts - cash flow hedges

The Group has exposure to gold commodity prices. To manage any adverse impact of movements in commodity prices, the Treasury Committee determined it will protect the predicted financial outcomes of the capital investment program by hedging the price of gold of Mt Muro's gold bullion sales. Anticipated gold sales are forecast after considering reserve calculations, mine production schedules and contractual commitments.

At the balance sheet date, the details of outstanding gold forward contracts are:

##### Mt Muro Operation

|                                             | Quantity hedged<br>ounces<br>30 June<br>2012 | 30 June<br>2011 | Average price<br>US\$/ounce<br>30 June<br>2012 | 30 June<br>2011 |
|---------------------------------------------|----------------------------------------------|-----------------|------------------------------------------------|-----------------|
| Forward gold contracts                      |                                              |                 |                                                |                 |
| Less than one year                          | 25,002                                       | -               | 1,586                                          | -               |
| More than one year but less than five years | 37,494                                       | -               | 1,586                                          | -               |

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into profit and loss when the hedged item is recognised. Any ineffective portion is recognised in profit and loss immediately. During the year ended 30 June 2012 the ineffective portion of hedges that was transferred to profit and loss was nil (2011: nil).

#### (iii) Forward copper contracts - cash flow hedges

A facility arrangement between Tritton Resources (a subsidiary of the Group) and Standard Chartered Bank (SCB) was entered into for a financial prepaid copper swap. The swap covers a notional volume of 16,202 tonnes of contained copper over 4.5 years commencing January 2012.

In accordance with accounting standards, the Group has recognised an embedded derivative in relation to the 16,202 tonnes of copper. The embedded derivative has been designated as a cash flow hedge of the highly probable forecast copper concentrate sales.

At the balance sheet date, the details of outstanding copper swap contracts are:

## 12 Derivative financial instruments (continued)

### (a) Instruments used by the group (continued)

#### (iii) Forward copper contracts - cash flow hedges (continued)

##### Tritton Copper Operation

|                                          | Quantity hedged<br>tonnes |                 | Average price<br>US\$/tonne |                 |
|------------------------------------------|---------------------------|-----------------|-----------------------------|-----------------|
|                                          | 30 June<br>2012           | 30 June<br>2011 | 30 June<br>2012             | 30 June<br>2011 |
| Maturity                                 |                           |                 |                             |                 |
| Less than one year                       | 839                       | -               | 7,888                       | -               |
| More than one year but less than 5 years | 13,922                    | -               | 7,791                       | -               |

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into profit and loss when the hedged item is recognised. Any ineffective portion is recognised in profit and loss immediately. During the year ended 30 June 2012 the ineffective portion of hedges that was transferred to profit and loss was nil (2011: nil).

#### (iv) Forward copper contracts - options

The Group has exposure to copper commodity prices. To manage any adverse impact of movements in commodity prices, the Treasury Committee determined it will protect the predicted financial outcomes of the capital investment program by hedging the price of copper of Tritton sales by way of zero cost collar options. Anticipated copper sales are forecast after considering reserve calculations, mine production schedules and contractual commitments.

At the balance sheet date, the details of outstanding copper option contracts are:

##### Tritton Copper Operation

|                                          | Quantity hedged<br>tonnes |                 | Average price<br>US\$/tonne      |                                   |                                  |                                   |
|------------------------------------------|---------------------------|-----------------|----------------------------------|-----------------------------------|----------------------------------|-----------------------------------|
|                                          | 30 June<br>2012           | 30 June<br>2011 | 30 June<br>2012<br>Put<br>option | 30 June<br>2012<br>Call<br>option | 30 June<br>2011<br>Put<br>option | 30 June<br>2011<br>Call<br>option |
| Maturity                                 |                           |                 |                                  |                                   |                                  |                                   |
| Less than one year                       | 839                       | -               | 5,050                            | 8,000                             | -                                | -                                 |
| More than one year but less than 5 years | 13,922                    | -               | 5,050                            | 8,000                             | -                                | -                                 |

The gain or loss from remeasuring the time value of the options at fair value is recognised in profit and loss immediately. In the period ended 30 June 2012 the time value portion of the options that was transferred to profit and loss was a gain of \$1,383,000 (2011: nil).

### (b) Risk exposures and fair value measurements

Information about the Group's exposure on its derivatives to interest rate, foreign exchange and commodity price risk is provided in note 6.

### 13 Current assets - Short term mine development

|                                       | 30 June<br>2012<br>\$'000 | 30 June<br>2011<br>\$'000 |
|---------------------------------------|---------------------------|---------------------------|
| Opening net book amount               | 3,804                     | -                         |
| Expenditure incurred during the year  | 9,022                     | 3,804                     |
| Amortisation for the year             | (4,813)                   | -                         |
| Closing balance                       | <u>8,013</u>              | <u>3,804</u>              |
| <b>Balance at reporting date</b>      |                           |                           |
| Short term mine development - at cost | 12,826                    | 3,804                     |
| Accumulated depreciation              | (4,813)                   | -                         |
| Net book value                        | <u>8,013</u>              | <u>3,804</u>              |

## 14 Current assets - Assets classified as held for sale

### (a) Assets classified as held for sale

|                                                                       | 2012<br>\$'000 | 2011<br>\$'000 |
|-----------------------------------------------------------------------|----------------|----------------|
| Disposal group held for sale (discontinued operation - see (c) below) | 14,293         | 61,715         |
| Plant and equipment                                                   | 1,601          | 4,108          |
|                                                                       | <u>15,894</u>  | <u>65,823</u>  |

### (b) Liabilities directly associated with assets classified as held for sale

|                              | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------------------|----------------|----------------|
| Disposal group held for sale | 4,307          | 38,007         |
|                              | <u>4,307</u>   | <u>38,007</u>  |

### (c) Discontinued operations

#### Discontinued Operation No. 1

##### (i) Description

On 4 July 2011, Straits Resources Ltd announced it had entered into an agreement for the divestiture of the Magontec business to Advanced Magnesium Limited. Straits Resources Ltd finalised the sale of its Magontec business to Advanced Magnesium Limited on 4 July 2011. The division is reported in this financial report as a discontinued operation in the consolidated income statement.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

##### (ii) Financial performance and cash flow information

|                                                               | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------------------------------------------------|----------------|----------------|
| Revenue                                                       | -              | 42,201         |
| Expenses                                                      | -              | (42,437)       |
| <b>Loss before income tax</b>                                 | -              | (236)          |
| Income tax expense                                            | -              | (506)          |
| <b>Loss from discontinued operation</b>                       | -              | (742)          |
| Net cash outflow from operating activities                    | -              | (2,133)        |
| Net cash outflow from investing activities                    | -              | (1,348)        |
| Net cash outflow from financing activities                    | -              | (923)          |
| Effects of exchange rate changes on cash and cash equivalents | -              | (32)           |
| <b>Net decrease in cash generated by the division</b>         | -              | (4,436)        |

## 14 Current assets - Assets classified as held for sale (continued)

### (c) Discontinued operations (continued)

#### Discontinued Operation No. 1 (continued)

#### (ii) Financial performance and cash flow information (continued)

The carrying amounts of assets and liabilities as at the balance sheet date were:

|                                | 2012<br>\$'000 | 2011<br>\$'000 |
|--------------------------------|----------------|----------------|
| <b>Current assets</b>          |                |                |
| Cash and cash equivalents      | -              | 2,538          |
| Receivables                    | -              | 20,417         |
| Inventory                      | -              | 20,383         |
| <b>Non-current assets</b>      |                |                |
| Receivables                    | -              | 470            |
| Property plant and equipment   | -              | 3,482          |
| Deferred tax assets            | -              | 424            |
| Intangible assets              | -              | 4              |
| <b>Total assets</b>            | <u>-</u>       | <u>47,718</u>  |
| <b>Current liabilities</b>     |                |                |
| Payables                       | -              | 11,488         |
| Interest bearing liabilities   | -              | 15,538         |
| Income tax payable             | -              | 554            |
| Provisions                     | -              | 847            |
| <b>Non-current liabilities</b> |                |                |
| Provisions                     | -              | 5,480          |
| <b>Total liabilities</b>       | <u>-</u>       | <u>33,907</u>  |
| <b>Net assets</b>              | <u>-</u>       | <u>13,811</u>  |

#### (iii) Details of the sale of the division

|                                       | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------------------------|----------------|----------------|
| Consideration received or receivable: |                |                |
| Present value of amount due           | 13,811         | -              |
| Carrying amount of net assets sold    | (13,811)       | -              |
| <b>Gain on sale after income tax</b>  | <u>-</u>       | <u>-</u>       |

## 14 Current assets - Assets classified as held for sale (continued)

### (c) Discontinued operations (continued)

#### Discontinued Operation No. 2

##### (i) Description

The Hillgrove Mine remains a non-core asset as the Group focuses on its natural strengths in copper and gold production and exploration. Hillgrove is an antimony/gold resource and whilst recent work shows it can be reconfigured to operate profitably as a concentrate producer, it is on a smaller scale than the copper and gold operations that are the focus of the Group.

The Group is still actively in the process of marketing the Hillgrove Mine for sale and there are several interested parties. The sale is expected to be completed within the next 12 months.

Financial information relating to the discontinued operation for the period is set out below.

Further information is set out in note 44 - Segment information.

##### (ii) Financial performance and cash flow information

|                                                | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------------------------------------|----------------|----------------|
| Revenue                                        | 20             | 83             |
| Expenses                                       | (3,517)        | (1,881)        |
| Loss before income tax                         | (3,497)        | (1,798)        |
| Income tax benefit                             | 965            | -              |
| <b>Loss from discontinued operation</b>        | <b>(2,532)</b> | <b>(1,798)</b> |
| Net cash outflow from operating activities     | (3,113)        | (1,166)        |
| Net cash outflow from investing activities     | (330)          | (236)          |
| Net cash outflow from financing activities     | (145)          | -              |
| Net decrease in cash generated by the division | (3,588)        | (1,402)        |

## 14 Current assets - Assets classified as held for sale (continued)

### (c) Discontinued operations (continued)

#### Discontinued Operation No. 2 (continued)

#### (ii) Financial performance and cash flow information (continued)

The carrying amounts of assets and liabilities as at the balance sheet date were:

|                                    | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------------------------|----------------|----------------|
| <b>Current assets</b>              |                |                |
| Cash and cash equivalents          | -              | 1              |
| Receivables                        | 9              | 42             |
| Inventory                          | 1,754          | 1,757          |
| Assets classified as held-for-sale | 226            | 226            |
| <b>Non-current assets</b>          |                |                |
| Property plant and equipment       | 11,297         | 10,964         |
| Mine properties in use             | 1,007          | 1,007          |
| <b>Total assets</b>                | <u>14,293</u>  | <u>13,997</u>  |
| <b>Current liabilities</b>         |                |                |
| Payables                           | 235            | 143            |
| Interest bearing liabilities       | 288            | 145            |
| Provisions                         | 129            | 87             |
| <b>Non-current liabilities</b>     |                |                |
| Interest bearing liabilities       | 3              | 291            |
| Provisions                         | 3,652          | 3,434          |
| <b>Total liabilities</b>           | <u>4,307</u>   | <u>4,100</u>   |
| <b>Net assets</b>                  | <u>9,986</u>   | <u>9,897</u>   |

### (d) Aggregate loss attributable to owners of the parent entity

|                                                              | 2012<br>\$'000   | 2011<br>\$'000  |
|--------------------------------------------------------------|------------------|-----------------|
| Loss attributable to owners of the parent entity relates to: |                  |                 |
| Loss from continuing operations                              | (136,692)        | (16,469)        |
| Loss from discontinued operation                             | (2,532)          | (2,540)         |
|                                                              | <u>(139,224)</u> | <u>(19,009)</u> |

## 15 Non-current assets - Receivables

|                   | 2012<br>\$'000 | 2011<br>\$'000 |
|-------------------|----------------|----------------|
| Restricted cash*  | 21,547         | 11,542         |
| Other receivables | 11,957         | 3,732          |
|                   | <u>33,504</u>  | <u>15,274</u>  |

\* Restricted cash relates to cash held on deposit for security against bank guarantees.

### (a) Impaired receivables and receivables past due

None of the non-current receivables are impaired or past due but not impaired.

### (b) Fair values

The fair values and carrying values of non-current receivables are as follows:

|                 | 2012                         |                      | 2011                         |                      |
|-----------------|------------------------------|----------------------|------------------------------|----------------------|
|                 | Carrying<br>amount<br>\$'000 | Fair value<br>\$'000 | Carrying<br>amount<br>\$'000 | Fair value<br>\$'000 |
| Loan Receivable | 11,957                       | 11,957               | 3,732                        | 3,732                |
| Restricted cash | 21,547                       | 21,547               | 11,542                       | 11,542               |
|                 | <u>33,504</u>                | <u>33,504</u>        | <u>15,274</u>                | <u>15,274</u>        |

### (c) Foreign currency risk

The carrying amounts of the Group's current and non-current receivables are denominated in the following currencies:

|                         | 2012<br>\$'000 | 2011<br>\$'000 |
|-------------------------|----------------|----------------|
| Australian Dollar       | 26,430         | 20,965         |
| US Dollar               | 25,246         | 8,615          |
| Indonesian Rupiah       | 14,030         | 7,069          |
| Canadian Dollar         | -              | 35             |
|                         | <u>65,706</u>  | <u>36,684</u>  |
| Current receivables     | 32,202         | 21,410         |
| Non-current receivables | 33,504         | 15,274         |
|                         | <u>65,706</u>  | <u>36,684</u>  |

For an analysis of the sensitivity of trade and other receivables to foreign exchange risk refer to note 6.

## 15 Non-current assets - Receivables (continued)

### (d) Credit risk

Refer to note 6 for more information on the risk management policy of the Group.

### (e) Interest rate risk

The Group has various variable interest rate receivables including restricted cash and other loan receivables. For an analysis of the sensitivity of trade and other receivables to foreign exchange risk refer to note 6.

## 16 Non-current assets - Other financial assets

Other financial assets include the following classes of financial assets:

|                     | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------|----------------|----------------|
| Unlisted Securities |                |                |
| Options             | <u>359</u>     | -              |

### (a) Unlisted securities

The Group holds unlisted options in Metallica Minerals Ltd which are valued at \$358,649 (2011: Nil).

Unlisted options are traded in inactive markets. Their fair value is determined based on the present value of net cash inflows from expected future interest or dividends and subsequent disposal of the securities. The discount rate used to determine the present value of the net cash inflows was based on a market interest rate and the risk premium specific to the unlisted securities (2012 - 4.5%; 2011: Nil). Refer to note 6 for further information about the methods used and assumptions applied in determining fair value.

## 17 Non-current assets - Property, plant and equipment

|                                  | Freehold land<br>\$'000 | Freehold<br>buildings<br>\$'000 | Plant and<br>equipment<br>\$'000 | Leased plant<br>and equipment<br>\$'000 | Total<br>\$'000 |
|----------------------------------|-------------------------|---------------------------------|----------------------------------|-----------------------------------------|-----------------|
| <b>Year ended 30 June 2011</b>   |                         |                                 |                                  |                                         |                 |
| Opening net book amount          | -                       | -                               | -                                | -                                       | -               |
| Additions (demerger)             | 1,615                   | 6,351                           | 25,370                           | 1,403                                   | 34,739          |
| Additions through the year       | 590                     | 205                             | 9,340                            | 19,639                                  | 29,774          |
| Disposals                        | -                       | -                               | (3,792)                          | (119)                                   | (3,911)         |
| Transfer to assets held for sale | (1,028)                 | (2,442)                         | (13,387)                         | (380)                                   | (17,237)        |
| Depreciation charge              | -                       | (76)                            | (1,545)                          | (2,198)                                 | (3,819)         |
| Reclassification                 | -                       | -                               | (86)                             | 86                                      | -               |
| Exchange differences             | (9)                     | 26                              | (572)                            | -                                       | (555)           |
| Closing net book amount          | 1,168                   | 4,064                           | 15,328                           | 18,431                                  | 38,991          |
| <b>At 30 June 2011</b>           |                         |                                 |                                  |                                         |                 |
| Cost                             | 1,168                   | 4,131                           | 15,672                           | 20,537                                  | 41,508          |
| Accumulated depreciation         | -                       | (67)                            | (344)                            | (2,106)                                 | (2,517)         |
| Net book amount                  | 1,168                   | 4,064                           | 15,328                           | 18,431                                  | 38,991          |
| <b>Year ended 30 June 2012</b>   |                         |                                 |                                  |                                         |                 |
| Opening net book amount          | 1,168                   | 4,064                           | 15,328                           | 18,431                                  | 38,991          |
| Additions through the year       | -                       | 435                             | 10,650                           | 2,012                                   | 13,097          |
| Disposals                        | -                       | -                               | (415)                            | -                                       | (415)           |
| Transfer to assets held for sale | -                       | -                               | (332)                            | -                                       | (332)           |
| Depreciation charge              | -                       | (183)                           | (2,714)                          | (3,647)                                 | (6,544)         |
| Reclassification                 | -                       | -                               | 5,708                            | (5,708)                                 | -               |
| Exchange differences             | -                       | -                               | 354                              | -                                       | 354             |
| Closing net book amount          | 1,168                   | 4,316                           | 28,579                           | 11,088                                  | 45,151          |
| <b>At 30 June 2012</b>           |                         |                                 |                                  |                                         |                 |
| Cost                             | 1,168                   | 4,565                           | 33,516                           | 14,931                                  | 54,180          |
| Accumulated depreciation         | -                       | (249)                           | (4,937)                          | (3,843)                                 | (9,029)         |
| Net book amount                  | 1,168                   | 4,316                           | 28,579                           | 11,088                                  | 45,151          |

### (a) Assets in the course of construction

The carrying amounts of the assets disclosed above include the following expenditure recognised in relation to property, plant and equipment which is in the course of construction:

|                     | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------|----------------|----------------|
| Plant and equipment | 9,810          | 8,151          |

## 17 Non-current assets - Property, plant and equipment (continued)

### (b) Leased assets

Property and equipment includes the following amounts where the Group is a lessee under a finance lease:

|                           | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------------|----------------|----------------|
| <b>Leased equipment</b>   |                |                |
| Cost                      | 14,931         | 20,537         |
| Accumulation depreciation | (3,843)        | (2,106)        |
| Net book amount           | <u>11,088</u>  | <u>18,431</u>  |

### (c) Non-current assets pledged as security

Refer to note 25 for information on non-current assets pledged as security by the Group.

## 18 Non-current assets - Exploration and evaluation, Mine properties in use

### (a) Exploration and evaluation

|                                      | 30 June<br>2012<br>\$'000 | 30 June<br>2011<br>\$'000 |
|--------------------------------------|---------------------------|---------------------------|
| Opening net book amount              | 15,579                    | -                         |
| Additions (demerger)                 | -                         | 13,794                    |
| Expenditure incurred during the year | 22,420                    | 11,606                    |
| Transfer to mine properties in use   | (8,420)                   | (8,641)                   |
| Expenditure written off              | (1,462)                   | (613)                     |
| Exchange differences                 | (945)                     | (567)                     |
| Closing balance                      | <u>27,172</u>             | <u>15,579</u>             |

The recoverability of exploration and evaluation assets depends on successful developments or sale of tenement areas.

## 18 Non-current assets - Exploration and evaluation, Mine properties in use (continued)

### (b) Mine properties in use

|                                      | 30 June<br>2012<br>\$'000 | 30 June<br>2011<br>\$'000 |
|--------------------------------------|---------------------------|---------------------------|
| Opening net book amount              | 54,785                    | -                         |
| Additions (demerger)                 | -                         | 33,516                    |
| Expenditure incurred during the year | 84,045                    | 16,703                    |
| Transfer from exploration            | 8,420                     | 8,641                     |
| Additions to rehabilitation asset    | 7,423                     | 786                       |
| Transfer to assets held for sale     | -                         | (1,007)                   |
| Amortisation for the year            | (10,523)                  | (3,362)                   |
| Exchange differences                 | 975                       | (492)                     |
| Mine properties written off          | (359)                     | -                         |
| Closing balance                      | <u>144,766</u>            | <u>54,785</u>             |
| <b>Balance at reporting date</b>     |                           |                           |
| Cost                                 | 158,096                   | 57,678                    |
| Accumulated depreciation             | (13,330)                  | (2,893)                   |
| Net book value                       | <u>144,766</u>            | <u>54,785</u>             |

## 19 Non-current assets - Deferred tax assets

|                                                                     | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------------------------------------------------------|----------------|----------------|
| <b>The balance comprises temporary differences attributable to:</b> |                |                |
| Investments                                                         | 2,308          | -              |
| Fixed assets, exploration and mine properties                       | 13,681         | 17,260         |
| Sundry                                                              | 5,393          | 5,051          |
| Total deferred tax assets                                           | <u>21,382</u>  | <u>22,311</u>  |
| Set-off of deferred tax liabilities pursuant to set-off provisions  | (3,568)        | (4,497)        |
| Net deferred tax assets                                             | <u>17,814</u>  | <u>17,814</u>  |
| Deferred tax assets expected to be recovered within 12 months       | -              | -              |
| Deferred tax assets expected to be recovered after 12 months        | <u>17,814</u>  | <u>17,814</u>  |
|                                                                     | <u>17,814</u>  | <u>17,814</u>  |

## 19 Non-current assets - Deferred tax assets (continued)

| Movements - Consolidated                           | Tax losses \$'000 | Investments \$'000 | Fixed assets, exploration and mine properties \$'000 | Other \$'000 | DTA/DTL net off \$'000 | Total \$'000  |
|----------------------------------------------------|-------------------|--------------------|------------------------------------------------------|--------------|------------------------|---------------|
| Additions (demerger)                               | -                 | -                  | 17,650                                               | 5,051        | (4,228)                | 18,473        |
| Debited/(credited) - to profit or loss             | -                 | -                  | 34                                                   | -            | 740                    | 774           |
| Debited/(credited) - to other comprehensive income | -                 | -                  | -                                                    | -            | (1,009)                | (1,009)       |
| Tax losses current losses                          | 12,992            | -                  | -                                                    | -            | -                      | 12,992        |
| Tax losses not recognised                          | (12,992)          | -                  | -                                                    | -            | -                      | (12,992)      |
| Transferred to assets held-for-sale                | -                 | -                  | (424)                                                | -            | -                      | (424)         |
| <b>At 30 June 2011</b>                             | <b>-</b>          | <b>-</b>           | <b>17,260</b>                                        | <b>5,051</b> | <b>(4,497)</b>         | <b>17,814</b> |
| Debited/(credited) - to profit or loss             | -                 | 2,308              | (3,579)                                              | 342          | 569                    | (360)         |
| Debited/(credited) - to other comprehensive income | -                 | -                  | -                                                    | -            | 360                    | 360           |
| Tax losses current losses                          | 47,891            | -                  | -                                                    | -            | -                      | 47,891        |
| Tax losses not recognised                          | (47,891)          | -                  | -                                                    | -            | -                      | (47,891)      |
| <b>At 30 June 2012</b>                             | <b>-</b>          | <b>2,308</b>       | <b>13,681</b>                                        | <b>5,393</b> | <b>(3,568)</b>         | <b>17,814</b> |

Deferred tax assets amounting to \$17,814,000 (2011: \$17,814,000) have been recognised, recovery of this amount is based on the Group's probable future taxable income.

### (a) Tax losses

|                                                                       | 2012 \$'000 | 2011 \$'000 |
|-----------------------------------------------------------------------|-------------|-------------|
| Unused tax losses for which no deferred tax asset has been recognised | 282,531     | 143,833     |
| Potential tax benefit @ 30.0%                                         | 84,759      | 43,150      |

## 20 Current liabilities - Payables

|                | 2012<br>\$'000 | 2011<br>\$'000 |
|----------------|----------------|----------------|
| Trade payables | 66,985         | 42,124         |
| Other payables | 1,451          | 124            |
|                | <u>68,436</u>  | <u>42,248</u>  |

### (a) Foreign currency risk

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

|                   | 2012<br>\$'000 | 2011<br>\$'000 |
|-------------------|----------------|----------------|
| Australian Dollar | 23,794         | 23,833         |
| US Dollar         | 31,112         | 8,064          |
| Indonesian Rupiah | 13,498         | 10,167         |
| Other currencies  | 32             | 184            |
|                   | <u>68,436</u>  | <u>42,248</u>  |

### (b) Risk exposure

Information about the Group exposure to foreign exchange risk is provided in note 6.

Due to short-term nature of current payables, their carrying value is assumed to approximate their fair value.

## 21 Current liabilities - Interest bearing liabilities

|                                  | 2012<br>\$'000 | 2011<br>\$'000 |
|----------------------------------|----------------|----------------|
| <b>Secured</b>                   |                |                |
| Bank loans                       | 22,321         | 22             |
| Lease liabilities                | 3,041          | 7,772          |
| Other loans                      | 649            | 482            |
| Total secured current borrowings | <u>26,011</u>  | <u>8,276</u>   |

### (a) Security

Details of the security relating to each of the secured liabilities and further information on bank and other loans are set out in note 25.

### (b) Risk exposures

Details of the Group's exposure to interest rate changes and foreign currency risk on interest bearing liabilities are set out in note 25.

## 21 Current liabilities - Interest bearing liabilities (continued)

### (c) Fair value disclosures

Details of the fair value of interest bearing liabilities for the Group are set out in note 25.

## 22 Current liabilities - Non interest bearing liabilities

|                                         | 2012<br>\$'000 | 2011<br>\$'000 |
|-----------------------------------------|----------------|----------------|
| <b>Secured</b>                          |                |                |
| Non interest bearing - Bogan Shire Loan | -              | 250            |

### (a) Security

The shire loan was provided to a Group subsidiary company. The loan was repayable over 4 years, was interest free and was secured by a floating charge over the assets of the Group subsidiary company.

## 23 Current liabilities - Provisions

|                   | 2012<br>\$'000 | 2011<br>\$'000 |
|-------------------|----------------|----------------|
| Employee benefits | 3,928          | 2,214          |
| Other provisions  | 334            | 402            |
|                   | <u>4,262</u>   | <u>2,616</u>   |

### (a) Other

Provision is made for the estimated cost of some obligations (primarily professional fees), where there is a likelihood that an outflow will be required for settlement.

### (b) Movements in provisions

Movements in each class of provision during the financial period, other than employee benefits, are set out below:

|                                                                         | Other<br>\$'000 | Total<br>\$'000 |
|-------------------------------------------------------------------------|-----------------|-----------------|
| <b>2012</b>                                                             |                 |                 |
| <b>Current</b>                                                          |                 |                 |
| Carrying amount at start of year                                        | 402             | 402             |
| Charged/(credited) to profit or loss - additional provisions recognised | 1,224           | 1,224           |
| Amounts used during the year                                            | (1,292)         | (1,292)         |
| Carrying amount at end of year                                          | <u>334</u>      | <u>334</u>      |

## 24 Current liabilities - Deferred revenue

|                  | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------|----------------|----------------|
| Deferred revenue | <u>21,920</u>  | -              |

The Group has entered into a US\$50 million silver advance payment with Credit Suisse. Under the agreement PT Indo Muro Kencana (a subsidiary of the Group) has contracted to deliver a total of 1,958,053 ounces of silver to Credit Suisse over the period from January 2012 until December 2014. In return, Credit Suisse has agreed to pay to PT Indo Muro Kencana US\$50 million in advance. The receipt of funds has been recognised as deferred revenue and the Group will recognise sales revenue in relation to the delivery of silver ounces as and when delivery is made, in accordance with the contract.

The Group has classified deferred revenue as a current liability where delivery is expected within the next twelve months with any remaining deliveries due more than twelve months from the end of the reporting year being classified as non-current deferred revenue (see note 28).

## 25 Non-current liabilities - Interest bearing liabilities

|                                      | 2012<br>\$'000 | 2011<br>\$'000 |
|--------------------------------------|----------------|----------------|
| <b>Secured</b>                       |                |                |
| Bank loans                           | 72,490         | 798            |
| Lease liabilities                    | 8,091          | 9,091          |
| Other loans                          | 2,102          | 2,418          |
| Total secured non-current borrowings | <u>82,683</u>  | <u>12,307</u>  |

### (a) Secured liabilities and assets pledged as security

The total secured liabilities (current and non-current) are as follows:

|                                | 2012<br>\$'000 | 2011<br>\$'000 |
|--------------------------------|----------------|----------------|
| Bank overdrafts and bank loans | 94,811         | 820            |
| Lease liabilities              | 11,132         | 16,863         |
| Other loans                    | 2,751          | 2,900          |
| Total secured liabilities      | <u>108,694</u> | <u>20,583</u>  |

Residential housing loans provided are secured over the residential properties. This loan has no recourse to the parent entity or other members of the Group.

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

## 25 Non-current liabilities - Interest bearing liabilities (continued)

### (a) Secured liabilities and assets pledged as security (continued)

The carrying amounts of assets pledged as security for current and non-current borrowings are:

|                                              | Notes | 2012<br>\$'000 | 2011<br>\$'000 |
|----------------------------------------------|-------|----------------|----------------|
| <i>Floating charge</i>                       |       |                |                |
| Receivables                                  | 9     | 10,459         | -              |
| <b>Non-current</b>                           |       |                |                |
| <i>First mortgage</i>                        |       |                |                |
| Freehold land and buildings                  | 17    | 1,125          | 1,166          |
| Plant and equipment                          |       | 25,655         | -              |
| Mine properties                              |       | 59,652         | -              |
| Exploration assets                           |       | 7,757          | -              |
|                                              |       | <u>94,189</u>  | <u>1,166</u>   |
| <i>Finance lease</i>                         |       |                |                |
| Plant and equipment                          | 17    | 11,088         | 18,431         |
| <i>Fixed charge</i>                          |       |                |                |
| Plant and equipment                          | 17    | 2,511          | 2,805          |
| Total non-current assets pledged as security |       | <u>107,788</u> | <u>22,402</u>  |
| Total assets pledged as security             |       | <u>118,247</u> | <u>22,402</u>  |

### (b) Lease liabilities

Certain vehicles and equipment acquired by the Group are funded by finance leases and hire purchase provided by a number of financial institutions. The leases are secured by the assets being financed.

### (c) Other loans

An agreement between PT Indo Muro Kencana ("IMK") and Straits Marine and Infrastructure Pte Ltd ("Project Manager") dated 1 December 2006, required the project manager to build and deliver to IMK a coal fired power station for the Mt Muro Mine in Indonesia. The power plant was completed and delivered to IMK effective 30 June 2010.

The payment for the services provided by the project manager totalled US\$3,300,000 comprised of a principal sum of US\$1,800,000 payable in 20 quarterly installments and a balloon payment of US\$1,500,000 to be paid in one installment on or before 30 June 2015. The loan is secured by way of a fixed charge over the coal fired power station.

Interest is payable at 9% per annum fixed for the duration of the agreement and is payable in 20 quarterly installments.

## 25 Non-current liabilities - Interest bearing liabilities (continued)

### (d) Financing arrangements

The Group had access to the following borrowing facilities at the reporting date:

|                                                                    | 2012<br>\$'000 | 2011<br>\$'000 |
|--------------------------------------------------------------------|----------------|----------------|
| Floating rate                                                      |                |                |
| Bank project finance loan facilities and residential housing loans | 94,811         | 820            |
| Used at balance date                                               |                |                |
| Bank project finance loan facilities and residential housing loans | 94,811         | 820            |
| Unused at balance date                                             |                |                |
| Bank project finance loan facilities and residential housing loans | -              | -              |

#### (i) Credit stand by arrangements

The Group has a \$20,566,273 (2011: \$22,000,000) bank guarantee facility in respect of its rehabilitation obligations which matures on 25 March 2013. These guarantees are secured by \$20,566,273 (2011: \$10,995,000) in restricted cash.

A controlled entity PT IMK has \$980,313 (US\$994,000) (2011: \$547,000 (US\$586,000)) bank guarantee facility in respect of its rehabilitation obligations. These guarantees are secured by \$980,313 (US\$994,000) (2011: \$547,000 (US\$586,000)) in restricted cash.

#### (ii) Bank residential housing loans

The residential housing loans totalling \$793,000 (2011: \$812,000) (original principal \$900,000) are repayable over 25 years at a current interest rate of 7.24%. (2011: 7.24%).

### (e) Interest rate risk exposure

The following tables set out the Group's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity periods. Exposures arise from liabilities bearing variable interest rates.

|                                                       | Fixed interest rate    |                |                   | Non interest bearing | Total          |
|-------------------------------------------------------|------------------------|----------------|-------------------|----------------------|----------------|
|                                                       | Floating interest rate | 1 year or less | Over 1 to 5 years |                      |                |
| <b>2012</b>                                           |                        |                |                   |                      |                |
| Bank overdrafts and loans (notes 21 and 25)           | 94,811                 | -              | -                 | -                    | 94,811         |
| Trade and other creditors (note 20)                   | -                      | -              | -                 | 68,436               | 68,436         |
| Lease and hire purchase liabilities (notes 21 and 25) | -                      | 3,041          | 8,091             | -                    | 11,132         |
| Other loans (notes 21 and 25)                         | -                      | 649            | 2,102             | -                    | 2,751          |
| Discontinued operations (note 14)                     | -                      | 288            | 3                 | -                    | 291            |
|                                                       | <b>94,811</b>          | <b>3,978</b>   | <b>10,196</b>     | <b>68,436</b>        | <b>177,421</b> |
|                                                       | Fixed interest rate    |                |                   |                      |                |
|                                                       | Floating interest rate | 1 year or less | Over 1 to 5 years | Non interest bearing | Total          |
| <b>2011</b>                                           |                        |                |                   |                      |                |
| Bank overdrafts and loans (notes 21 and 25)           | 820                    | -              | -                 | -                    | 820            |
| Bogan Shire loan (note 22)                            | -                      | -              | -                 | 250                  | 250            |
| Trade and other creditors (note 20)                   | -                      | -              | -                 | 42,248               | 42,248         |
| Lease and hire purchase liabilities (notes 21 and 25) | -                      | 7,772          | 9,091             | -                    | 16,863         |
| Other loans (notes 21 and 25)                         | -                      | 482            | 2,418             | -                    | 2,900          |
| Discontinued operations (note 14)                     | 13,369                 | 2,314          | 291               | -                    | 15,974         |
|                                                       | <b>14,189</b>          | <b>10,568</b>  | <b>11,800</b>     | <b>42,498</b>        | <b>79,055</b>  |

## 25 Non-current liabilities - Interest bearing liabilities (continued)

### (f) Fair value

The carrying amounts and fair values of borrowings at the end of the reporting period are:

|                                         | 2012                         |                      | 2011                         |                      |
|-----------------------------------------|------------------------------|----------------------|------------------------------|----------------------|
|                                         | Carrying<br>amount<br>\$'000 | Fair value<br>\$'000 | Carrying<br>amount<br>\$'000 | Fair value<br>\$'000 |
| <b>On-balance sheet</b>                 |                              |                      |                              |                      |
| <i>Non-traded financial liabilities</i> |                              |                      |                              |                      |
| Bank loans                              | 94,811                       | 94,811               | 820                          | 820                  |
| Other loans                             | 2,751                        | 2,751                | 290                          | 290                  |
| Lease and hire purchase liabilities     | 11,132                       | 11,132               | 16,863                       | 16,863               |
| Discontinued operations                 | -                            | -                    | 15,974                       | 15,974               |
|                                         | <b>108,694</b>               | <b>108,694</b>       | <b>33,947</b>                | <b>33,947</b>        |

#### (i) On-balance sheet

The fair value of interest bearing liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates or liabilities with similar risk profiles.

#### (ii) Off-balance sheet

Certain controlled entities have potential financial liabilities which may arise from certain contingencies disclosed in note 35. As explained in this note, no material losses are anticipated in respect of any of those contingencies.

### (g) Foreign exchange risk exposures

The carrying amounts of the Group's current and non-current interest bearing liabilities are denominated in the following currencies:

|                                     | 2012                               |                                               |                                                       | 2011                               |                                               |                                                    |
|-------------------------------------|------------------------------------|-----------------------------------------------|-------------------------------------------------------|------------------------------------|-----------------------------------------------|----------------------------------------------------|
|                                     | US Dollar<br>denominated<br>\$'000 | Australian<br>Dollar<br>denominated<br>\$'000 | Total<br>interest<br>bearing<br>liabilities<br>\$'000 | US Dollar<br>Denominated<br>\$'000 | Australian<br>Dollar<br>denominated<br>\$'000 | Total interest<br>bearing<br>liabilities<br>\$'000 |
| Bank overdrafts and loans           | 94,018                             | 793                                           | 94,811                                                | -                                  | 820                                           | 820                                                |
| Lease and hire purchase liabilities | -                                  | 11,132                                        | 11,132                                                | 10,759                             | 6,104                                         | 16,863                                             |
| Other loans                         | 2,751                              | -                                             | 2,751                                                 | 2,900                              | -                                             | 2,900                                              |
| Discontinued operations             | -                                  | 291                                           | 291                                                   | 15,538                             | 436                                           | 15,974                                             |
| Total                               | <b>96,769</b>                      | <b>12,216</b>                                 | <b>108,985</b>                                        | <b>29,197</b>                      | <b>7,360</b>                                  | <b>36,557</b>                                      |

Information about the Group's exposure to interest rate and foreign currency changes is provided in note 6.

## 26 Non-current liabilities - Deferred tax liabilities

|                                                                     | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------------------------------------------------------|----------------|----------------|
| <b>The balance comprises temporary differences attributable to:</b> |                |                |
| <i>Amounts recognised in the profit and loss</i>                    |                |                |
| Inventories                                                         | 1,851          | 931            |
| Mineral rights                                                      | 605            | 231            |
| Investments                                                         | -              | 1,511          |
| Sundry                                                              | 48             | 815            |
|                                                                     | <u>2,504</u>   | <u>3,488</u>   |
| <i>Other</i>                                                        |                |                |
| Cash flow hedges                                                    | 1,064          | 1,009          |
| Total deferred tax liabilities                                      | <u>3,568</u>   | <u>4,497</u>   |
| Set-off of deferred tax liabilities pursuant to set-off provisions  | <u>(3,568)</u> | <u>(4,497)</u> |
| Net deferred tax liabilities                                        | <u>-</u>       | <u>-</u>       |

| Movements - Consolidated                           | Investments<br>\$'000 | Inventories<br>\$'000 | Mineral<br>rights<br>\$'000 | Cash<br>flow<br>hedges<br>\$'000 | Other<br>\$'000 | DTA<br>net off<br>\$'000 | Total<br>\$'000 |
|----------------------------------------------------|-----------------------|-----------------------|-----------------------------|----------------------------------|-----------------|--------------------------|-----------------|
| <b>At 1 November 2010</b>                          | <b>(1,511)</b>        | <b>(931)</b>          | <b>(231)</b>                | <b>(1,009)</b>                   | <b>(815)</b>    | <b>4,497</b>             | <b>-</b>        |
| Additions (demerger)                               | 2,478                 | -                     | 8                           | 1,012                            | 730             | (4,228)                  | -               |
| Charged/(credited) - profit or loss                | (967)                 | 931                   | 223                         | (1,012)                          | 85              | 740                      | -               |
| Charged/(credited) - to other comprehensive income | -                     | -                     | -                           | 1,009                            | -               | (1,009)                  | -               |
| <b>At 30 June 2011</b>                             | <b>1,511</b>          | <b>931</b>            | <b>231</b>                  | <b>1,009</b>                     | <b>815</b>      | <b>(4,497)</b>           | <b>-</b>        |
| Charged/(credited) - profit or loss                | (1,511)               | 920                   | 374                         | 415                              | (767)           | 569                      | -               |
| Charged/(credited) - to other comprehensive income | -                     | -                     | -                           | (360)                            | -               | 360                      | -               |
| <b>At 30 June 2012</b>                             | <b>-</b>              | <b>1,851</b>          | <b>605</b>                  | <b>1,064</b>                     | <b>48</b>       | <b>(3,568)</b>           | <b>-</b>        |

## 27 Non-current liabilities - Provisions

|                                              | 2012<br>\$'000 | 2011<br>\$'000 |
|----------------------------------------------|----------------|----------------|
| Provisions for employee benefits             | 2,429          | 2,435          |
| Provision for rehabilitation and dismantling | 23,317         | 14,686         |
|                                              | <u>25,746</u>  | <u>17,121</u>  |

### (a) Movements in provisions

Movements in each class of provision during the financial period, other than employee benefits, are set out below:

|                                                  | Provision for<br>rehabilitation<br>and<br>dismantling<br>\$'000 | Total<br>\$'000 |
|--------------------------------------------------|-----------------------------------------------------------------|-----------------|
| <b>2012</b>                                      |                                                                 |                 |
| <b>Current</b>                                   |                                                                 |                 |
| Carrying amount at start of year                 | 14,686                                                          | 14,686          |
| Additional provisions recognised during the year | 8,631                                                           | 8,631           |
| Carrying amount at end of year                   | <u>23,317</u>                                                   | <u>23,317</u>   |

### (b) Rehabilitation and dismantling

Provision is made for the estimated cost of settling the rehabilitation and restoration obligations existing at balance date. The estimated costs are discounted using a pre tax discount rate that reflects the time value of money and it does not reflect risks for which future cash flow estimates have been adjusted.

Provision is made for the estimated costs of dismantling and removing the item of plant and equipment and restoring the site on which it is located.

## 28 Non-current liabilities - Deferred revenue

|                  | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------|----------------|----------------|
| Deferred revenue | <u>21,871</u>  | -              |

Refer to note 24 for the for the current portions of these deferred revenues.

## 29 Contributed equity

### (a) Share capital

|                                 | Notes        | 2012<br>Shares     | 2011<br>Shares     | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------------------|--------------|--------------------|--------------------|----------------|----------------|
| Ordinary shares                 | 29(b), 29(c) |                    |                    |                |                |
| Ordinary shares - fully paid    |              | 448,538,448        | 316,342,835        | 295,941        | 219,921        |
| ESAP loans - contributed equity |              | 7,991,026          | 8,312,914          | -              | -              |
|                                 |              | <u>456,529,474</u> | <u>324,655,749</u> | <u>295,941</u> | <u>219,921</u> |

### (b) Movements in ordinary share capital

| Date             | Details                                                                | Notes | Number of<br>shares | Issue<br>price | \$'000         |
|------------------|------------------------------------------------------------------------|-------|---------------------|----------------|----------------|
| 1 November 2010  | Opening balance                                                        |       | 1                   | \$0.00         | -              |
|                  | Shares issued under International Coal Holdings Limited (SRL) Demerger |       |                     |                |                |
| 11 February 2011 | Scheme*                                                                |       | 316,342,834         | \$0.70         | 219,921        |
| 4 March 2011     | ESAP issue                                                             | 29(d) | 8,012,914           | \$0.56         | -              |
| 3 April 2011     | ESAP issue                                                             | 29(d) | 300,000             | \$0.85         | -              |
|                  | Balance                                                                |       | <u>324,655,749</u>  |                | <u>219,921</u> |
|                  | Issue of shares under employee exempt                                  |       |                     |                |                |
| 1 July 2011      | plan                                                                   | 29(e) | 140,392             | \$0.78         | 109            |
|                  | ESAP share loans repaid during the 2012                                |       |                     |                |                |
| 18 July 2011     | financial year                                                         |       | -                   | \$0.00         | 250            |
| 16 February 2012 | Share issue                                                            |       | 48,700,000          | \$0.60         | 29,220         |
| 23 March 2012    | Share issue                                                            |       | 26,300,000          | \$0.60         | 15,780         |
| 26 March 2012    | Share issue                                                            |       | 2,412,546           | \$0.60         | 1,448          |
| 5 April 2012     | Share issue                                                            |       | 5,920,787           | \$0.60         | 3,552          |
| 17 May 2012      | Share issue                                                            |       | 48,400,000          | \$0.62         | 30,008         |
|                  | Less: Transaction costs arising on share issue                         |       | -                   | \$0.00         | (4,347)        |
|                  | Balance                                                                |       | <u>456,529,474</u>  |                | <u>295,941</u> |

\* Under the International Coal Holdings Limited (formerly Straits Resources Limited) Demerger Scheme, one ordinary share was issued for each International Coal Holdings Limited ordinary share held at the Record Date for the demerger being 8 February 2011.

### (c) Ordinary shares

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote. Upon a poll each holder of ordinary shares is entitled to one vote for each fully paid share held (pro-rated in the case of partly paid shares).

### (d) Employee Share Acquisition Plan (ESAP)

The Straits Resources Limited Employee Share Acquisition Plan (ESAP) was approved by virtue of the approval of the demerger scheme at the Demerger Scheme Meeting on 21 January 2011. The purpose of the plan is to attract, retain, motivate and reward key executive employees. Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in note 43.

## 29 Contributed equity (continued)

### (e) Employee Exempt Plan

Under the Employee Exempt Plan, eligible employees may be offered fully paid ordinary shares in Straits Resources Limited for no cash consideration. The purpose of the plan is to attract, retain, motivate and reward employees.

### (f) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of its capital structure comprising equity, debt and cash.

The Group reviews the capital structure on a semi annual basis. As part of this review the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations from the Group, the Group will balance its overall capital structure through the payment of dividends, new share issues, new debt or the refinancing or repayment of existing debt.

The Group also reviews its gearing level. The Group's gearing ratio is calculated as net debt to net debt plus equity. Net debt is total interest bearing liabilities less cash and cash equivalents (excluding any restricted cash). Equity is equity as shown in the balance sheet (including minority interests). The gearing ratio at reporting date was as follows:

|                                    | Notes | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------------------------|-------|----------------|----------------|
| Total interest bearing liabilities |       | 123,066        | 20,583         |
| Less: cash and cash equivalents    | 8     | (12,892)       | (36,716)       |
| Net debt                           |       | 110,174        | (16,133)       |
| Total equity                       |       | 88,605         | 204,409        |
| <b>Total capital</b>               |       | <b>198,779</b> | <b>188,276</b> |
| Gearing ratio                      |       | 55.4%          | N/A%           |

## 30 Reserves

### (a) Reserves

|                                             | 2012<br>\$'000  | 2011<br>\$'000 |
|---------------------------------------------|-----------------|----------------|
| Cash flow hedges                            | 211             | 2,353          |
| Share-based payments                        | 540             | 130            |
| Transactions with non-controlling interests | (9,443)         | -              |
| Foreign currency translation                | (1,772)         | (2,969)        |
|                                             | <b>(10,464)</b> | <b>(486)</b>   |

### 30 Reserves (continued)

#### (a) Reserves (continued)

|                                                            | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------------------------------------------------|----------------|----------------|
| <b>Movements:</b>                                          |                |                |
| <i>Cash flow hedges</i>                                    |                |                |
| Balance 1 July                                             | 2,353          | -              |
| Revaluation - gross                                        | (2,697)        | 6,032          |
| Deferred tax                                               | 149            | (1,810)        |
| Transfer to net profit or loss - gross                     | 196            | (2,670)        |
| Deferred tax                                               | 210            | 801            |
| Balance 30 June                                            | <u>211</u>     | <u>2,353</u>   |
| <i>Share-based payments</i>                                |                |                |
| Balance 1 July                                             | 130            | -              |
| Option expense                                             | 410            | 130            |
| Balance 30 June                                            | <u>540</u>     | <u>130</u>     |
| <i>Transactions with non-controlling interests</i>         |                |                |
| Acquisition of additional ownership in entity              | (9,443)        | -              |
| Balance 30 June                                            | <u>(9,443)</u> | <u>-</u>       |
| <i>Foreign currency translation</i>                        |                |                |
| Balance 1 July                                             | (2,969)        | -              |
| Currency translation differences arising during the year   | 266            | (2,038)        |
| Exchange differences on translation discontinued operation | 931            | (931)          |
| Balance 30 June                                            | <u>(1,772)</u> | <u>(2,969)</u> |

#### (b) Retained earnings

Movements in retained earnings were as follows:

|                                        | 2012<br>\$'000   | 2011<br>\$'000  |
|----------------------------------------|------------------|-----------------|
| Balance at the beginning of the period | (19,009)         | -               |
| Net loss for the year                  | <u>(139,224)</u> | <u>(19,009)</u> |
| <b>Balance 30 June</b>                 | <u>(158,233)</u> | <u>(19,009)</u> |

#### (c) Nature and purpose of reserves

##### (i) Cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in equity, as described in note 1(n). Amounts are recognised in profit or loss when the associated hedged transaction affects profit or loss.

### 30 Reserves (continued)

#### (c) Nature and purpose of reserves (continued)

##### (ii) Share-based payments

The share-based payments reserve is used to recognise the fair value of equity instruments issued to employees.

##### (iii) Transactions with non-controlling interests

This reserve is used to record the differences described in note 1(b)(iii) which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

##### (iv) Foreign currency translation

Exchange differences arising on translation of the foreign operations are taken to the foreign currency translation reserve, as described in note 1(c). The reserve is recognised in profit and loss when the net investment is disposed of.

### 31 Non-controlling interests

|                     | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------|----------------|----------------|
| <b>Interest in:</b> |                |                |
| Share capital       | -              | 9,628          |
| Reserves            | -              | (255)          |
| Retained earnings   | -              | (5,390)        |
|                     | <u>-</u>       | <u>3,983</u>   |

The Group acquired the remaining 28.7% shareholding in Goldminco Corporation Limited during the year.

### 32 Dividends

#### (a) Dividends not recognised at the end of the reporting period

The directors did not declare a dividend in either of the periods ending 30 June 2012 and 30 June 2011.

### 33 Key management personnel disclosures

#### (a) Directors

Details of directors are disclosed in the Directors' report.

#### (b) Key management personnel compensation

|                              | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------------------|----------------|----------------|
| Short-term employee benefits | 3,764          | 1,534          |
| Post-employment benefits     | 354            | 138            |
| Termination benefits         | 708            | -              |
| Share-based payments         | 271            | 88             |
|                              | <u>5,097</u>   | <u>1,761</u>   |

Detailed remuneration disclosures are provided in the remuneration report on pages 37 to 47.

### 33 Key management personnel disclosures (continued)

#### (c) Equity instrument disclosures relating to key management personnel

##### (i) Share holdings

The number of shares in the Company held during the financial period by each director of Straits Resources Limited and other key management personnel of the Group, including their personally related parties, are set out below.

| 2012                                               | Balance at the start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at end of the year            |
|----------------------------------------------------|----------------------------------|-----------------------------------------------------|-------------------------------|---------------------------------------|
| <b>Name</b>                                        |                                  |                                                     |                               |                                       |
| <b>Directors of Straits Resources Limited</b>      |                                  |                                                     |                               |                                       |
| <b>Ordinary shares</b>                             |                                  |                                                     |                               |                                       |
| Milan Jerkovic                                     | 8,511,140                        | 833,334                                             | -                             | 9,344,474                             |
| Alan Good                                          | 34,766                           | 25,000                                              | -                             | 59,766                                |
| Gary Lowder**                                      | 450,000                          | -                                                   | (450,000)                     | -                                     |
| Michael Gibson***                                  | 3,950,288                        | 166,667                                             | -                             | 4,116,955                             |
| Susan Vearncombe                                   | 50,000                           | -                                                   | -                             | 50,000                                |
| Alastair Morrison                                  | -                                | -                                                   | -                             | -                                     |
| Colin Wise                                         | -                                | 82,000                                              | -                             | 82,000                                |
| <b>Other key management personnel of the Group</b> |                                  |                                                     |                               |                                       |
| <b>Ordinary shares</b>                             |                                  |                                                     |                               |                                       |
| Peter Storey                                       | 1,449,547                        | -                                                   | -                             | 1,449,547                             |
| David Greenwood                                    | 1,131,240                        | -                                                   | (60,000)                      | 1,071,240                             |
| Gail Campbell****                                  | 426,277                          | -                                                   | (426,277)                     | -                                     |
| Nic Earner                                         | 1,387,312                        | -                                                   | -                             | 1,387,312                             |
| Ivan Jerkovic                                      | 1,043,578                        | -                                                   | -                             | 1,043,578                             |
| <b>2011</b>                                        | <b>Issued on demerger</b>        | <b>Issued and acquired*</b>                         | <b>Disposed</b>               | <b>Balance at the end of the year</b> |
| <b>Name</b>                                        |                                  |                                                     |                               |                                       |
| <b>Directors of Straits Resources Limited</b>      |                                  |                                                     |                               |                                       |
| <b>Ordinary shares</b>                             |                                  |                                                     |                               |                                       |
| Milan Jerkovic                                     | 6,821,226                        | 1,689,914                                           | -                             | 8,511,140                             |
| Alan Good                                          | 13,564                           | 21,202                                              | -                             | 34,766                                |
| Gary Lowder**                                      | 450,000                          | -                                                   | -                             | 450,000                               |
| Michael Gibson***                                  | 2,850,503                        | 1,099,785                                           | -                             | 3,950,288                             |
| Susan Vearncombe                                   | 50,000                           | -                                                   | -                             | 50,000                                |
| <b>Other key management personnel of the Group</b> |                                  |                                                     |                               |                                       |
| <b>Ordinary shares</b>                             |                                  |                                                     |                               |                                       |
| Peter Storey                                       | 1,027,069                        | 422,478                                             | -                             | 1,449,547                             |
| David Greenwood                                    | 793,762                          | 422,478                                             | (85,000)                      | 1,131,240                             |
| Gail Campbell****                                  | 723,867                          | 402,360                                             | (700,000)                     | 426,227                               |
| Nic Earner                                         | 207,055                          | 1,180,257                                           | -                             | 1,387,312                             |
| Ivan Jerkovic                                      | 721,690                          | 321,888                                             | -                             | 1,043,578                             |

\* Issued and acquired shares includes issues through ESAP and acquisition on the open market.

\*\* Gary Lowder retired as a director on 1/07/2011.

\*\*\* Michael Gibson resigned as a director on 12/06/2012.

\*\*\*\* Gail Campbell resigned as Chief Financial Officer on 25/06/2012.

Details relating to the ESAP shares are provided in the Remuneration report.

### 33 Key management personnel disclosures (continued)

#### (d) Loans to key management personnel

Details of loans made to directors of Straits Resources Limited and other key management personnel of the Group, including their personally related parties, are set out below.

##### (i) Aggregates for key management personnel

|                                | Balance at the<br>start of the<br>year<br>\$ | Interest paid<br>and payable<br>for the year<br>\$ | Interest not<br>charged<br>\$ | Balance at<br>end of the<br>year<br>\$ | Number in<br>Group at the<br>end of the year |
|--------------------------------|----------------------------------------------|----------------------------------------------------|-------------------------------|----------------------------------------|----------------------------------------------|
| <b>2012</b>                    |                                              |                                                    |                               |                                        |                                              |
| Directors                      | 1,560,000                                    | -                                                  | -                             | 945,000                                | 1                                            |
| Other key management personnel | 1,357,500                                    | -                                                  | -                             | 1,132,499                              | 3                                            |
|                                | Balance at the<br>start of the<br>year<br>\$ | Interest paid<br>and payable<br>for the year<br>\$ | Interest not<br>charged<br>\$ | Balance at<br>end of the<br>year<br>\$ | Number in<br>Group at the<br>end of the year |
| <b>2011</b>                    |                                              |                                                    |                               |                                        |                                              |
| Directors                      | -                                            | -                                                  | -                             | 1,560,000                              | 2                                            |
| Other key management personnel | -                                            | -                                                  | -                             | 1,357,500                              | 4                                            |

##### (ii) Individuals with loans above \$100,000 during the year

|                                       | Balance at the<br>start of the<br>year<br>\$ | Interest paid<br>and payable<br>for the year<br>\$ | Interest not<br>charged<br>\$ | Balance at the<br>end of the<br>year<br>\$ | Highest<br>indebtedness<br>during the<br>year<br>\$ |
|---------------------------------------|----------------------------------------------|----------------------------------------------------|-------------------------------|--------------------------------------------|-----------------------------------------------------|
| <b>2012</b>                           |                                              |                                                    |                               |                                            |                                                     |
| <b>Directors</b>                      |                                              |                                                    |                               |                                            |                                                     |
| Milan Jerkovic                        | 945,000                                      | -                                                  | -                             | 945,000                                    | 945,000                                             |
| Michael Gibson                        | 615,000                                      | -                                                  | -                             | -                                          | 615,000                                             |
| <b>Other key management personnel</b> |                                              |                                                    |                               |                                            |                                                     |
| Peter Storey                          | 236,250                                      | -                                                  | -                             | 236,250                                    | 236,250                                             |
| David Greenwood                       | 236,250                                      | -                                                  | -                             | 236,250                                    | 236,250                                             |
| Gail Campbell                         | 225,000                                      | -                                                  | -                             | -                                          | 225,000                                             |
| Nic Earner                            | 660,000                                      | -                                                  | -                             | 660,000                                    | 660,000                                             |
|                                       | Balance at the<br>start of the<br>year<br>\$ | Interest paid<br>and payable<br>for the year<br>\$ | Interest not<br>charged<br>\$ | Balance at the<br>end of the<br>year<br>\$ | Highest<br>indebtedness<br>during the<br>year<br>\$ |
| <b>2011</b>                           |                                              |                                                    |                               |                                            |                                                     |
| <b>Directors</b>                      |                                              |                                                    |                               |                                            |                                                     |
| Milan Jerkovic                        | -                                            | -                                                  | -                             | 945,000                                    | 945,000                                             |
| Michael Gibson                        | -                                            | -                                                  | -                             | 615,000                                    | 615,000                                             |
| <b>Other key management personnel</b> |                                              |                                                    |                               |                                            |                                                     |
| Peter Storey                          | -                                            | -                                                  | -                             | 236,250                                    | 236,250                                             |
| David Greenwood                       | -                                            | -                                                  | -                             | 236,250                                    | 236,250                                             |
| Gail Campbell                         | -                                            | -                                                  | -                             | 225,000                                    | 225,000                                             |
| Nic Earner                            | -                                            | -                                                  | -                             | 660,000                                    | 660,000                                             |

### 33 Key management personnel disclosures (continued)

#### (d) Loans to key management personnel (continued)

##### (ii) Individuals with loans above \$100,000 during the year (continued)

All secured loans to directors are interest free limited recourse loans advanced for the acquisition of shares under the terms of the Executive Share Acquisition Plan as approved by shareholders by virtue of approval of the Demerger Scheme at the Demerger Scheme meeting on 21 January 2011.

The above ESAP loans have not been recognised in the financial statements under AIFRS as they are accounted for as employee options as outlined in note 1(z)(iii).

#### (e) Other transactions with key management personnel

Mr Alastair Morrison, the global co-head of Standard Chartered Private Equity Limited, a non-executive director has not received any salary or fees to 30 June 2012.

### 34 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

#### (a) PwC Australia

|                                                                                      | 2012<br>\$     | 2011<br>\$     |
|--------------------------------------------------------------------------------------|----------------|----------------|
| <i>Audit and other assurance services</i>                                            |                |                |
| Audit and review of financial reports and other audit work                           | 481,460        | 378,645        |
| Other assurance services - controls enhancement review                               | -              | 19,540         |
| Total remuneration for audit and other assurance services                            | <u>481,460</u> | <u>398,185</u> |
| <i>Taxation services</i>                                                             |                |                |
| Tax compliance and advisory services, including review of company income tax returns | 30,777         | 30,498         |
| Total remuneration for taxation services                                             | <u>30,777</u>  | <u>30,498</u>  |
| Total remuneration of PwC Australia                                                  | <u>512,237</u> | <u>428,683</u> |

### 34 Remuneration of auditors (continued)

#### (b) Network firms of PwC Australia

|                                                            | 2012<br>\$     | 2011<br>\$ |
|------------------------------------------------------------|----------------|------------|
| <i>Audit and other assurance services</i>                  |                |            |
| Audit and review of financial reports and other audit work | <b>117,797</b> | 144,440    |
| Total remuneration for audit and other assurance services  | <b>117,797</b> | 144,440    |
| <i>Other services</i>                                      |                |            |
| Tax compliance and advisory services                       | <b>39,009</b>  | 30,275     |
| Total remuneration for other services                      | <b>39,009</b>  | 30,275     |
| Total remuneration of network firms of PwC Australia       | <b>156,806</b> | 174,715    |

#### (c) Non-PwC Australia audit firms

|                                                            | 2012<br>\$   | 2011<br>\$ |
|------------------------------------------------------------|--------------|------------|
| <i>Audit and other assurance services</i>                  |              |            |
| Audit and review of financial reports and other audit work | <b>3,837</b> | 8,041      |
| Total remuneration for audit and other assurance services  | <b>3,837</b> | 8,041      |
| <i>Taxation services</i>                                   |              |            |
| Tax compliance and advisory services                       | -            | 11,864     |
| Total remuneration for taxation services                   | -            | 11,864     |
| Total remuneration of non-PwC Australia audit firms        | <b>3,837</b> | 19,905     |

|                              | 2012<br>\$     | 2011<br>\$ |
|------------------------------|----------------|------------|
| Total auditors' remuneration | <b>672,880</b> | 623,303    |

It is the Group's policy to employ the auditors on assignments additional to their statutory audit duties where their expertise and experience with the Group are important. These assignments are principally for taxation advice.

### 35 Contingencies

The Group has contingencies at 30 June 2012 in respect of:

#### (a) Contingent liabilities

- (i) In prior years, PT Indo Muro Kencana ("PT IMK") as owned by previous owners, was served with legal proceedings in relation to a land compensation claim of \$3.8 million (Rp 37.2 billion) due to material loss of land due to mining activities. The claim is under appeal by the plaintiffs in the Supreme Court, having been unsuccessful in the District Court. PT IMK and its lawyers believe that the ambit claim is lacking any legal basis and that there are strong grounds to defend the claims. Management is therefore confident that the Supreme Court will uphold the lower court's decision.

#### (b) Contingent assets

- (i) A controlled entity PT IMK currently has a number of tax disputes outstanding with the Indonesian Tax Office ("ITO") arising from tax audits in respect of corporate income tax, withholding tax and VAT covering a number of years. The assessed amounts, net of cash paid and outstanding refunds that remain in dispute total \$1,219,230 (US\$1,235,690). The Group has not recognised a receivable with respect to these disputed assessments.

Appeals in respect of all disputed assessments have been lodged with the Tax Court and these are being vigorously pursued. Given the current differences of opinion with the ITO in respect of these matters, it is not possible to predict at this time the ultimate outcome of these matters.

### 36 Commitments

#### (a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

|                                      | 2012<br>\$'000 | 2011<br>\$'000 |
|--------------------------------------|----------------|----------------|
| <i>Property, plant and equipment</i> |                |                |
| Payable:                             |                |                |
| Within one year                      | 330            | 590            |
|                                      | <u>330</u>     | <u>590</u>     |

#### (b) Lease commitments

##### (i) Exploration and mining leases

|                                                  | 2012<br>\$'000 | 2011<br>\$'000 |
|--------------------------------------------------|----------------|----------------|
| Within one year                                  | 6,096          | 6,666          |
| Later than one year but no later than five years | 11,647         | 12,318         |
| Later than five years                            | 12,226         | 14,072         |
|                                                  | <u>29,969</u>  | <u>33,056</u>  |

## 36 Commitments (continued)

### (b) Lease commitments (continued)

#### (ii) Operating leases

|                                                   | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------------------------------------|----------------|----------------|
| Within one year                                   | 16,234         | 104            |
| Later than one year but not later than five years | 1,279          | 104            |
|                                                   | <u>17,513</u>  | <u>208</u>     |

#### (iii) Finance leases

|                                                                   | 2012<br>\$'000 | 2011<br>\$'000 |
|-------------------------------------------------------------------|----------------|----------------|
| Commitments in relation to finance leases are payable as follows: |                |                |
| Within one year                                                   | 3,902          | 9,081          |
| Later than one year but not later than five years                 | 8,548          | 10,169         |
| Minimum lease payments                                            | <u>12,450</u>  | <u>19,250</u>  |
| Future finance charges                                            | (1,027)        | (1,951)        |
| Recognised as a liability                                         | <u>11,423</u>  | <u>17,299</u>  |
| Total lease liabilities                                           | <u>11,423</u>  | <u>17,299</u>  |
| Representing lease liabilities:                                   |                |                |
| Current (note 21)                                                 | 3,041          | 7,772          |
| Non current (note 25)                                             | 8,091          | 9,091          |
| Liabilities held for sale - discontinued operations (note 14)     | 291            | 436            |
|                                                                   | <u>11,423</u>  | <u>17,299</u>  |

Included in the commitments above was a discontinuing operation Straits Hillgrove which was contractually liable for leases with a total liability of \$291,000 (2011: \$436,000) at the balance sheet date. This liability was made up of a current liability of \$288,000 (2011: \$145,000) and a non current liability of \$3,000 (2011: \$291,000). Future interest charges in relation to those leases is \$9,800 (2011: \$40,000).

### 37 Related party transactions

#### (a) Parent entities

The ultimate controlling entity and Australian parent entity within the Group is Straits Resources Limited.

#### (b) Subsidiaries

Interests in subsidiaries are set out in note 38.

#### (c) Transactions with other related parties

The following transactions occurred with related parties other than key management personnel or entities related to them:

|                                                                                             | 2012<br>\$        | 2011<br>\$     |
|---------------------------------------------------------------------------------------------|-------------------|----------------|
| Superannuation contributions - Contributions to superannuation funds on behalf of employees | 3,362,595         | 868,737        |
| Net loans entered into with Standard Chartered Bank                                         | 83,558,812        | -              |
|                                                                                             | <u>86,921,407</u> | <u>868,737</u> |

#### (d) Standard Chartered Bank

Mr Alastair Morrison is a non-executive director but does not fall within the ASX definition of "independent" as he is appointed by Standard Chartered Private Equity, which holds 18.4% of the issued capital in Straits.

To finance the Tritton offtake "buyout" the Company's subsidiary Tritton Resources Pty Ltd and Standard Chartered Bank entered into a US\$85 million financial prepared copper swap. The swap covers a notional volume of 16,202 tonnes of contained copper over 4.5 years.

Tritton Resources Pty Ltd and Standard Chartered Bank also entered into a US\$15 million Performance Bond and Working capital facility.

#### (e) Key management personnel

Disclosures relating to key management personnel are set out in note 33.

## 38 Subsidiaries

### (a) Significant investments in subsidiaries

The Consolidated Financial Statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

| Name of entity                                       | Country of incorporation | Class of shares | Equity holding ** |           |
|------------------------------------------------------|--------------------------|-----------------|-------------------|-----------|
|                                                      |                          |                 | 2012<br>%         | 2011<br>% |
| Straits Mining Pty Ltd and its subsidiaries          | Australia                | Ordinary        | 100               | 100       |
| Girilambone Copper Company Pty Ltd                   | Australia                | Ordinary        | 100               | 100       |
| Tritton Resources Pty Ltd                            | Australia                | Ordinary        | 100               | 100       |
| Straits Exploration (Australia) Pty Ltd              | Australia                | Ordinary        | 100               | 100       |
| Straits Gold Pty Ltd and its subsidiaries            | Australia                | Ordinary        | 100               | 100       |
| Straits (Hillgrove) Gold Pty Ltd                     | Australia                | Ordinary        | 100               | 100       |
| Straits Indo Gold Pty Ltd and its subsidiaries       | Australia                | Ordinary        | 100               | 100       |
| Muro Offshore Pty Ltd and its subsidiaries           | Australia                | Ordinary        | 100               | 100       |
| PT Indo Muro Kencana                                 | Indonesia                | Ordinary        | 99                | 99        |
| Kalteng Emas Pte Ltd                                 | Singapore                | Ordinary        | 100               | 100       |
| PT Borneo Emas Perkasa                               | Indonesia                | Ordinary        | 100               | 100       |
| PT Bumi Bahari Nusantara Persada                     | Indonesia                | Ordinary        | 99                | 99        |
| Kalteng Minerals Pte Ltd                             | Singapore                | Ordinary        | 100               | 100       |
| Indo Muro Pty Ltd                                    | Australia                | Ordinary        | 100               | 100       |
| PT Indo Muro Kencana                                 | Indonesia                | Ordinary        | 1                 | 1         |
| Straits Mine Management Pty Ltd and its subsidiaries | Australia                | Ordinary        | 100               | 100       |
| Varomet Holdings Limited and its subsidiaries *      | Cyprus                   | Ordinary        | -                 | 100       |
| Magontec GmbH                                        | Germany                  | Ordinary        | -                 | 100       |
| Magontec Xi'an Co. Ltd                               | China                    | Ordinary        | -                 | 100       |
| Macontec (SuZhou) Co. Ltd                            | China                    | Ordinary        | -                 | 100       |
| Magontec SRL                                         | Romania                  | Ordinary        | -                 | 100       |
| Canada Inc.                                          | Canada                   | Ordinary        | 100               | -         |
| Goldminco Corporation Limited and its subsidiaries** | Canada                   | Ordinary        | 100               | 71        |
| Goldminco Resources Pty Ltd                          | Australia                | Ordinary        | 100               | 100       |
| Templar Resources Pty Ltd                            | Australia                | Ordinary        | 100               | 100       |
| Straits Mineral Investments Pty Ltd                  | Australia                | Ordinary        | 100               | 100       |

Straits Mining Pty Ltd and Straits Resources Limited hold 25% and 75% respectively of the ordinary share capital of Tritton Resources Pty Ltd.

Straits Exploration (Australia) Pty Ltd, Canada Inc. and Straits Gold Pty Ltd hold 4.14%, 28.67% and 67.19% respectively (2011: 8.5%, Nil and 62.8% respectively) of the ordinary share capital of Goldminco Corporation Limited.

\* Varomet Holdings Limited and its subsidiaries were disposed of on 4th July 2011 and have been reported within the Group's accounts as discontinued operations.

\*\* The reporting date of Goldminco Corporation Limited is 31 March.

## 39 Interests in jointly controlled assets

### (a) Jointly controlled assets

|                                                                                                   | % interest<br>Held during<br>the year 2012 | % interest<br>Held during<br>the year 2011 |
|---------------------------------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------|
| <b>Name and principal activity</b>                                                                |                                            |                                            |
| Kokomo scandium (earn in 20%) located in Queensland. Principal activity scandium exploration.     | -                                          | -                                          |
| Torrens (earn in 70%) located in South Australia. Principal activity copper and gold exploration. | 70                                         | -                                          |

There was no expenditure incurred on the above interests included in capitalised exploration expenditure for the year (2011: Nil).

## 40 Events occurring after the reporting period

### (a) Statutory Demand

On 29 August 2012 a Statutory Demand notice was received for the sum of \$1,852,622. The Company believes there are reasonable prospects of it meeting payment of the amount due under the Notice within the required timeframe as identified in the Going Concern disclosure in Note 1 of the accounts.

### (b) Magontec Limited

On 8 June 2012 Straits announced it had entered into a Heads of Agreement with Magontec Limited relating to the reorganisation of the debt owed by Magontec to the Company. The effect of the proposed reorganisation was that Straits agreed to accept a payment of \$6 million and delivery of a \$2 million convertible note in full discharge of the loan amount, conditional on Magontec making payment of that sum and on Magontec gaining shareholder approval of the note, which was intended to occur before 31 December 2012. Magontec has recently contacted the Company and advised that it believes it will be difficult for it to meet those conditions in the current market environment. It has requested that Straits agree to a further compromise on the timing of repayment of the debt. This matter remains under discussion with Magontec.

## 41 Non-cash investing and financing activities

|                                                                                  | 2012<br>\$'000 | 2011<br>\$'000 |
|----------------------------------------------------------------------------------|----------------|----------------|
| Acquisition of plant and equipment by means of finance leases                    | 2,012          | 19,639         |
| Increase in restricted cash by means of financing facilities                     | 10,459         | -              |
| Disposal of exploration tenements in exchange for listed and unlisted securities | 1,859          | -              |
| In specie distribution of shares from Cape Alumina Limited                       | -              | 54             |
| Net assets upon demerger excluding cash                                          | -              | 175,378        |
| In specie distribution of options from Malachite Resources Limited               | 4              | -              |
|                                                                                  | <b>14,334</b>  | <b>195,071</b> |

## 42 Earnings per share

### (a) Basic earnings per share

|                                                                                           | 2012<br>Cents | 2011<br>Cents |
|-------------------------------------------------------------------------------------------|---------------|---------------|
| <b>(a) Basic earnings per share</b>                                                       |               |               |
| From continuing operations attributable to the ordinary equity holders of the company     | (38.2)        | (5.1)         |
| From discontinued operation                                                               | (0.7)         | (0.8)         |
| Total basic earnings per share attributable to the ordinary equity holders of the Company | <u>(38.9)</u> | <u>(5.9)</u>  |

### (b) Diluted earnings per share

|                                                                                             | 2012<br>Cents | 2011<br>Cents |
|---------------------------------------------------------------------------------------------|---------------|---------------|
| From continuing operations attributable to the ordinary equity holders of the company       | (38.2)        | (5.1)         |
| From discontinued operation                                                                 | (0.7)         | (0.8)         |
| Total diluted earnings per share attributable to the ordinary equity holders of the Company | <u>(38.9)</u> | <u>(5.9)</u>  |

### (c) Reconciliation of earnings used in calculating earnings per share

|                                                                                                                                         | 2012<br>\$'000   | 2011<br>\$'000  |
|-----------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------------|
| <i>Basic earnings per share</i>                                                                                                         |                  |                 |
| Loss attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:                           |                  |                 |
| From continuing operations                                                                                                              | (136,672)        | (16,504)        |
| Attributed to non-controlling interests                                                                                                 | (20)             | 35              |
| Loss from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share | <u>(136,692)</u> | <u>(16,469)</u> |
| From discontinued operation                                                                                                             | 2,532            | 2,540           |
| Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share                            | <u>(139,224)</u> | <u>(19,009)</u> |

## 42 Earnings per share (continued)

### (d) Weighted average number of shares used as denominator

|                                                                                                                   | 2012<br>Number     | 2011<br>Number     |
|-------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i> | <u>358,075,719</u> | <u>322,877,747</u> |

## 43 Share-based payments

### (a) Employee Exempt Share Plan

A scheme under which shares may be issued by the Company to employees for no cash consideration was approved by directors in the period ended 30 June 2011. All Australian resident permanent employees (excluding executive directors) who have been continuously employed by the Group for a period of at least one year are eligible to participate in the scheme. Employees may elect not to participate in the scheme.

Under the scheme, eligible employees may be offered up to \$1,000 worth of fully paid ordinary shares in Straits Resources Limited annually for no cash consideration.

Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment by the Group. In all other respects the shares rank equally with other fully paid ordinary shares on issue (refer to note 29(c)).

The number of shares issued to participants in the scheme is the offer amount divided by such amount as is determined by the Board, being an amount not less than the Market Value on the date of issue.

The following table sets out the number of shares issued to participants in the scheme during the reporting period:

|                                                                   | 2012           | 2011 |
|-------------------------------------------------------------------|----------------|------|
| Number of shares issued under the plan to participating employees | <u>140,392</u> | -    |

### (b) Employee Share Acquisition Plan (ESAP)

The ESAP plan was approved by virtue of approval of the International Coal Holdings Limited (formerly Straits Resources Limited) Demerger Scheme at the company's Demerger Scheme Meeting on 21 January 2011. The purpose of the plan is to attract, retain, motivate and reward executive employees.

The plan operates by allowing participants to obtain shares in the Company at market price. The shares are subject to performance hurdles and if met are vested with the Company providing an interest free loan. The shares are held in trust and a holding lock is then placed over the shares in the Company until the loan is repaid in full.

The performance hurdle criteria required that the Company's total shareholder return be equal to or greater than the 50 percentile of total shareholder returns of the S&P/ASX 300 Metals and Mining Index at the expiry of a three year period and which compares the Company's performance against its peer group.

The Company may only require a participant to repay the loan in accordance with the plan rules, and will not be entitled to have recourse to any assets of the participant other than the plan shares held by that participant. There is no other risk to the participant.

## 43 Share-based payments (continued)

### (b) Employee Share Acquisition Plan (ESAP) (continued)

The following table sets out the number of shares issued to participants in the scheme during the reporting period:

|                                                                   | 2012 | 2011      |
|-------------------------------------------------------------------|------|-----------|
| Number of shares issued under the plan to participating employees | -    | 8,312,914 |

### (c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

|                                 | 2012<br>\$ | 2011<br>\$ |
|---------------------------------|------------|------------|
| Employee Share Acquisition Plan | 546,379    | 129,867    |

## 44 Segment information

### (a) Description of segments

#### Business segments

Management has determined the operating segments based on the reports reviewed by the directors of Straits Resources Limited that are used to make strategic decisions. The consolidated entity is organised on a global basis into the following divisions by product and service type.

#### *Base metals*

Consists of the Tritton copper mine.

#### *Precious Metals*

Consists of the Mt Muro gold and silver mine operated by PT Indo Muro Kencana in Indonesia.

The Group's business segments are Base Metals, Precious Metals and Other (not material to be classified as a separate segment). Other includes greenfield exploration not specifically attributable to an operating mine.

#### *Discontinued operations*

The discontinued operations segment consists of the Hillgrove mine which is a non-core asset currently on care and maintenance. During the year the Group disposed of the Varomet Holdings group of companies which previously formed the Specialty Metals segment.

#### Geographical segments

Management has determined the operating segments based on the reports reviewed by the directors of Straits Resources Limited that are used to make strategic decisions. There has been no impact on the reportable segments presented for the consolidated entity. The consolidated entity is organised on a global basis into the following divisions by product and service type.

#### *Australia*

Consists of the Tritton copper mine.

## 44 Segment information (continued)

### (a) Description of segments (continued)

#### *Geographical segments (continued)*

##### *South East Asia*

Principal activities in this region comprise the Mt Muro gold operation.

##### *Europe/China*

The Group previously operated a specialty metals business in this geographical segment. The specialty metals business was disposed of during the period.

### Segment results

Included in the 30 June 2012 segment results is the discontinued operations segment relating to the Hillgrove mine as the disposal group classified as held for sale.

### (b) Segment information provided to the board of directors

| 2012                                                                                           | Base<br>Metals<br>\$'000 | Precious<br>Metals<br>\$'000 | Other<br>\$'000 | Total<br>continuing<br>operations<br>\$'000 | Discontinued<br>operations<br>(note 14)<br>\$'000 | Total<br>\$'000 |
|------------------------------------------------------------------------------------------------|--------------------------|------------------------------|-----------------|---------------------------------------------|---------------------------------------------------|-----------------|
| Sales to external customers                                                                    | 196,238                  | 54,217                       | -               | 250,455                                     | -                                                 | 250,455         |
| <b>Total segment revenue</b>                                                                   | <b>196,238</b>           | <b>54,217</b>                | <b>-</b>        | <b>250,455</b>                              | <b>-</b>                                          | <b>250,455</b>  |
| Other revenue                                                                                  | 372                      | 170                          | 5,849           | 6,391                                       | 20                                                | 6,411           |
| <b>Total revenue</b>                                                                           | <b>196,610</b>           | <b>54,387</b>                | <b>5,849</b>    | <b>256,846</b>                              | <b>20</b>                                         | <b>256,866</b>  |
| Unallocated revenue                                                                            | -                        | -                            | -               | 2,112                                       | -                                                 | 2,112           |
| <b>Consolidated revenue</b>                                                                    | <b>196,610</b>           | <b>54,387</b>                | <b>5,849</b>    | <b>258,958</b>                              | <b>20</b>                                         | <b>258,978</b>  |
| <b>Adjusted EBITDA</b>                                                                         | <b>26,811</b>            | <b>3,169</b>                 | <b>(23,484)</b> | <b>6,496</b>                                | <b>(3,307)</b>                                    | <b>3,189</b>    |
| Segment assets                                                                                 | 194,713                  | 164,389                      | 135,924         | 495,026                                     | 14,293                                            | 509,319         |
| Intersegment elimination                                                                       | -                        | -                            | -               | (143,117)                                   | -                                                 | (143,117)       |
| Unallocated assets                                                                             | -                        | -                            | -               | 17,814                                      | -                                                 | 17,814          |
| <b>Total assets</b>                                                                            | <b>194,713</b>           | <b>164,389</b>               | <b>135,924</b>  | <b>369,723</b>                              | <b>14,293</b>                                     | <b>384,016</b>  |
| Segment liabilities                                                                            | 210,716                  | 146,450                      | 23,736          | 380,902                                     | 4,307                                             | 385,209         |
| Intersegment liabilities                                                                       | -                        | -                            | -               | (143,117)                                   | -                                                 | (143,117)       |
| Unallocated liabilities                                                                        | -                        | -                            | -               | 14,680                                      | -                                                 | 14,680          |
| <b>Total liabilities</b>                                                                       | <b>210,716</b>           | <b>146,450</b>               | <b>23,736</b>   | <b>252,465</b>                              | <b>4,307</b>                                      | <b>256,772</b>  |
| <b>Other segment information</b>                                                               |                          |                              |                 |                                             |                                                   |                 |
| Acquisition of property, plant and equipment, intangibles and other non-current segment assets | 42,475                   | 89,674                       | 3,527           | 135,676                                     | 332                                               | 136,008         |
| Depreciation and amortisation                                                                  | 17,196                   | 4,401                        | 283             | 21,880                                      | -                                                 | 21,880          |

#### 44 Segment information (continued)

##### (b) Segment information provided to the board of directors (continued)

| 2011                                                                                           | Base<br>Metals<br>\$'000 | Precious<br>Metals<br>\$'000 | Other<br>\$'000 | Total<br>continuing<br>operations<br>\$'000 | Discontinued<br>operations<br>(note 14)<br>\$'000 | Total<br>\$'000 |
|------------------------------------------------------------------------------------------------|--------------------------|------------------------------|-----------------|---------------------------------------------|---------------------------------------------------|-----------------|
| Sales to external customers                                                                    | 104,323                  | 17,588                       | -               | 121,911                                     | 41,735                                            | 163,646         |
| <b>Total segment revenue</b>                                                                   | 104,323                  | 17,588                       | -               | 121,911                                     | 41,735                                            | 163,646         |
| Other revenue                                                                                  | 1,560                    | 609                          | 728             | 2,897                                       | 549                                               | 3,446           |
| <b>Total revenue</b>                                                                           | 105,883                  | 18,197                       | 728             | 124,808                                     | 42,284                                            | 167,092         |
| Unallocated revenue                                                                            | -                        | -                            | -               | 852                                         | -                                                 | 852             |
| <b>Consolidated revenue</b>                                                                    | 105,883                  | 18,197                       | 728             | 125,660                                     | 42,284                                            | 167,944         |
| <b>Adjusted EBITDA</b>                                                                         | 1,698                    | 917                          | (12,085)        | (9,470)                                     | (567)                                             | (10,037)        |
| Segment assets                                                                                 | 128,153                  | 67,189                       | 129,374         | 324,716                                     | 61,715                                            | 386,431         |
| Intersegment elimination                                                                       | -                        | -                            | -               | (79,011)                                    | -                                                 | (79,011)        |
| Unallocated assets                                                                             | -                        | -                            | -               | 17,814                                      | -                                                 | 17,814          |
| <b>Total assets</b>                                                                            | 128,153                  | 67,189                       | 129,374         | 263,519                                     | 61,715                                            | 325,234         |
| Segment liabilities                                                                            | 52,362                   | 53,634                       | 35,250          | 141,246                                     | 38,007                                            | 179,253         |
| Intersegment liabilities                                                                       | -                        | -                            | -               | (79,011)                                    | -                                                 | (79,011)        |
| Unallocated liabilities                                                                        | -                        | -                            | -               | 20,583                                      | -                                                 | 20,583          |
| <b>Total liabilities</b>                                                                       | 52,362                   | 53,634                       | 35,250          | 82,818                                      | 38,007                                            | 120,825         |
| <b>Other segment information</b>                                                               |                          |                              |                 |                                             |                                                   |                 |
| Acquisition of property, plant and equipment, intangibles and other non-current segment assets | 39,018                   | 16,840                       | 631             | 56,489                                      | 1,607                                             | 58,096          |
| Depreciation and amortisation                                                                  | 5,443                    | 748                          | 181             | 6,372                                       | 810                                               | 7,182           |

|                     | Segment revenues<br>from sales to<br>external customers |                | Segment assets |                | Acquisitions of<br>property, plant and<br>equipment and other<br>non current segment<br>assets |                |
|---------------------|---------------------------------------------------------|----------------|----------------|----------------|------------------------------------------------------------------------------------------------|----------------|
|                     | 2012<br>\$'000                                          | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000                                                                                 | 2011<br>\$'000 |
| Australia           | 196,238                                                 | 104,323        | 201,813        | 138,270        | 46,334                                                                                         | 39,908         |
| South East Asia     | 54,217                                                  | 17,588         | 164,389        | 49,712         | 89,674                                                                                         | 15,293         |
| Europe/China        | -                                                       | 41,735         | -              | 119,438        | -                                                                                              | 2,895          |
|                     | <b>250,455</b>                                          | <b>163,646</b> | <b>366,202</b> | <b>307,420</b> | <b>136,008</b>                                                                                 | <b>58,096</b>  |
| Unallocated assets  | -                                                       | -              | 17,814         | 17,814         | -                                                                                              | -              |
| <b>Total assets</b> | <b>250,455</b>                                          | <b>163,646</b> | <b>384,016</b> | <b>325,234</b> | <b>136,008</b>                                                                                 | <b>58,096</b>  |

Segment revenues are allocated based on the country in which the assets are located. Segment assets and capital expenditure are allocated based on where the assets are located.

#### 44 Segment information (continued)

##### (c) Other segment information

###### (i) Segment revenue

The revenue from external parties reported to the directors is measured in a manner consistent with that in profit and loss.

Segment revenue reconciles to total revenue from continuing operations as follows:

|                                                          | 2012<br>\$'000 | 2011<br>\$'000 |
|----------------------------------------------------------|----------------|----------------|
| Total segment revenue                                    | 250,455        | 121,911        |
| Management fees                                          | 3              | 14             |
| Interest revenue                                         | 2,110          | 838            |
| Other revenue                                            | 1,232          | 1,439          |
| <b>Total revenue from continuing operations (note 2)</b> | <b>253,800</b> | <b>124,202</b> |

###### (ii) Adjusted EBITDA

The directors of Straits Resources Limited assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as impairment and exploration write downs.

A reconciliation of adjusted EBITDA to operating loss before income tax from continuing operations is provided as follows:

|                                                          | 2012<br>\$'000   | 2011<br>\$'000  |
|----------------------------------------------------------|------------------|-----------------|
| Adjusted EBITDA (continuing operations)                  | 6,496            | (9,470)         |
| Finance costs                                            | (11,751)         | (1,585)         |
| Depreciation and amortisation expenses                   | (21,880)         | (6,461)         |
| Unrealised financial instrument losses                   | (1,122)          | -               |
| Sempra contract buyout expense                           | (105,634)        | -               |
| Mark to market valuation of option collars               | 1,383            | -               |
| Impairment of other assets                               | (2,839)          | -               |
| <b>Loss before income tax from continuing operations</b> | <b>(135,347)</b> | <b>(17,516)</b> |

###### (iii) Segment assets

The amounts provided to the directors with respect to total assets are measured in a manner consistent with that of the balance sheet. These assets are allocated based on the operations of the segment and the physical location of the asset.

#### 44 Segment information (continued)

##### (c) Other segment information (continued)

###### (iii) Segment assets (continued)

Reportable segments assets are reconciled to total assets as follows:

|                                                           | 2012<br>\$'000 | 2011<br>\$'000 |
|-----------------------------------------------------------|----------------|----------------|
| <b>Segment assets</b>                                     | <b>495,026</b> | 324,716        |
| Intersegment eliminations                                 | (143,117)      | (79,011)       |
| Discontinued operation                                    | 14,293         | 61,715         |
| Unallocated:                                              |                |                |
| Deferred tax assets                                       | 17,814         | 17,814         |
| <b>Total assets as per the Consolidated Balance Sheet</b> | <b>384,016</b> | 325,234        |

###### (iv) Segment liabilities

The amounts provided to the directors with respect to total liabilities are measured in a manner consistent with that of the financial statements . These liabilities are allocated based on the operations of the segment.

The Group's borrowings are not considered to be segment liabilities but rather managed by the treasury function.

Reportable segments' liabilities are reconciled to total liabilities as follows:

|                                                                | 2012<br>\$'000 | 2011<br>\$'000 |
|----------------------------------------------------------------|----------------|----------------|
| <b>Segment liabilities</b>                                     | <b>380,902</b> | 141,246        |
| Intersegment eliminations                                      | (143,117)      | (79,011)       |
| Discontinued operation                                         | 4,307          | 38,007         |
| Unallocated:                                                   |                |                |
| Current borrowings                                             | 10,985         | 8,276          |
| Non-current borrowings                                         | 3,695          | 12,307         |
| <b>Total liabilities as per the Consolidated Balance Sheet</b> | <b>256,772</b> | 120,825        |

## 45 Parent entity financial information

### (a) Summary financial information

The individual Financial Statements for the parent entity show the following aggregate amounts:

|                                 | 2012<br>\$'000  | 2011<br>\$'000  |
|---------------------------------|-----------------|-----------------|
| <b>Balance sheet</b>            |                 |                 |
| Current assets                  | 149,981         | 141,165         |
| Non-current assets              | 84,762          | 70,746          |
| Total assets                    | <u>234,743</u>  | <u>211,911</u>  |
| Current liabilities             | 3,904           | 3,134           |
| Non-current liabilities         | 801             | 577             |
| Total liabilities               | <u>4,705</u>    | <u>3,711</u>    |
| <i>Shareholders' equity</i>     |                 |                 |
| Contributed equity              | 295,941         | 219,921         |
| Reserves                        |                 |                 |
| Reserves - Share-based payments | 540             | 130             |
| Retained earnings               | <u>(66,443)</u> | <u>(11,851)</u> |
|                                 | <u>230,038</u>  | <u>208,200</u>  |
| Loss for the year               | <u>(55,125)</u> | <u>(11,851)</u> |
| Total comprehensive income      | <u>(55,125)</u> | <u>(11,851)</u> |

### (b) Guarantees entered into by the parent entity

The parent entity has provided financial guarantees in respect of performance bonds for work commitments on mining and mineral exploration tenements, for the parent company and its subsidiaries amounting to \$10,107,466 (2011: \$20,555,000). The bank guarantee facility for the parent company totals \$10,107,467 (2011: \$22,000,000) of which \$10,107,467 (2011: \$10,995,000) is secured by cash deposits.

### (c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2012 or 30 June 2011. For information about guarantees given by the parent entity, please see above.

### (d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity did not have any contractual commitments for the acquisition of property, plant or equipment as at 30 June 2012 or 30 June 2011.

**Straits Resources Limited  
Directors' Declaration  
30 June 2012**

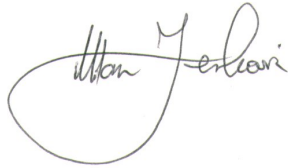
In the directors' opinion:

- (a) the Consolidated Financial Statements and notes set out on pages 49 to 131 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the financial period ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the Consolidated Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

A handwritten signature in dark ink, appearing to read 'Milan Jerkovic', with a large, stylized loop at the end.

Milan Jerkovic  
Director

30 August 2012



## **Independent auditor's report to the members of Straits Resources Limited**

### ***Report on the financial report***

We have audited the accompanying financial report of Straits Resources Limited (the company), which comprises the balance sheet as at 30 June 2012, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Straits Resources Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

### ***Directors' responsibility for the financial report***

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



## **Independent auditor's report to the members of Straits Resources Limited (cont'd)**

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's opinion*

In our opinion:

- (a) the financial report of Straits Resources Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

### *Material Uncertainty Regarding Continuation as a Going Concern*

Without qualifying our opinion, we draw attention to Note 1(a) in the financial report, which indicates that the company incurred a net loss after tax of \$139.2m during the year ended 30 June 2012 and, as of that date, the company's current liabilities exceeded its current assets by \$13.6m. Consequently the Group needs to raise additional funding to continue to fund capital and operating activities. These conditions, along with other matters set forth in Note 1(a), indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

### *Report on the Remuneration Report*

We have audited the remuneration report included in pages 37 to 47 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Straits Resources Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*Douglas Craig*

Douglas Craig  
Partner

30 August 2012  
Perth

## SHAREHOLDER INFORMATION

|                                                                               | Fully Paid<br>Ordinary<br>Shares | Employee<br>Options | Number of<br>Shares |
|-------------------------------------------------------------------------------|----------------------------------|---------------------|---------------------|
| <b>Issued Capital</b>                                                         | 456,529,474                      | Nil                 | 456,529,474         |
| <b>Distribution of Holders</b>                                                |                                  |                     |                     |
| 1 - 1,000                                                                     | 1,056                            |                     | 423,034             |
| 1,001 - 5,000                                                                 | 1,287                            |                     | 3,374,843           |
| 5,001 - 10,000                                                                | 430                              |                     | 3,330,240           |
| 10,001 - 100,000                                                              | 766                              |                     | 28,720,031          |
| 100,001 and over                                                              | 183                              |                     | 420,681,326         |
|                                                                               | 3,723                            |                     | 456,529,474         |
| Shareholders holding less than a marketable parcel<br>Minimum \$500.00 parcel | 2,189                            |                     |                     |

Shareholder information as at 29 August 2012

### Substantial shareholders as at 29 August 2012

|                                           | Ordinary Shares | % Issued Capital |
|-------------------------------------------|-----------------|------------------|
| Standard Chartered Private Equity Limited | 84,181,857      | 18.4%            |
| Merricks Capital Pty Ltd                  | 73,992,498      | 16.2%            |

### Voting Rights

At a general meeting:

- 1) On a show of hands, every member present has one vote; and
- 2) On a poll, every member present has one vote for each share held by the member and in respect of which the member is entitled to vote except in respect of partly paid shares, each of which will confer on a poll only a fraction of one vote which the amount paid up on the share bears to the total issue price of the share.

## TOP TWENTY SHAREHOLDERS

### Fully Paid Ordinary Shares

|                                                                     | <b>Name</b>                                            | <b>Number</b>      | <b>%</b>     |
|---------------------------------------------------------------------|--------------------------------------------------------|--------------------|--------------|
| 1.                                                                  | Standard Chartered Private Equity Limited              | 61,139,221         | 13.39        |
| 2.                                                                  | National Nominees Limited                              | 30,852,412         | 6.76         |
| 3.                                                                  | HSBC Custody Nominees (Australia) Limited              | 28,347,850         | 6.21         |
| 4.                                                                  | HSBC Custody Nominees (Australia) Limited – (A/C 2)    | 27,534,332         | 6.03         |
| 5.                                                                  | JP Morgan Nominees Australia Limited (Cash Income A/C) | 26,977,066         | 5.91         |
| 6.                                                                  | UBS Nominees Pty Ltd                                   | 22,393,561         | 4.91         |
| 7.                                                                  | Zero Nominees Pty Ltd                                  | 20,766,704         | 4.55         |
| 8.                                                                  | Aurora Funds Management Limited (Borg Fund A/C)        | 20,390,000         | 4.47         |
| 9.                                                                  | Citicorp Nominees Pty Limited                          | 19,247,057         | 4.22         |
| 10.                                                                 | Merrick Capital Pty Ltd (BT SRQ A/C)                   | 17,471,946         | 3.83         |
| 11.                                                                 | HSBC Custody Nominees (Australia) Limited-GSCO ECA     | 12,490,784         | 2.74         |
| 12.                                                                 | J P Morgan Nominees Australia Limited                  | 9,488,157          | 2.08         |
| 13.                                                                 | Merrick Capital Pty Ltd (BT SRL A/C)                   | 9,355,351          | 2.05         |
| 14.                                                                 | CPU Share Plans Pty Ltd (SRQ ESAP Control A/C)         | 7,991,026          | 1.75         |
| 15.                                                                 | Mr Milan Jerkovic                                      | 6,269,632          | 1.37         |
| 16.                                                                 | Buttonwood Nominees Pty Ltd                            | 5,837,051          | 1.28         |
| 17.                                                                 | Pershing Australia Nominees Pty Ltd (Argonaut A/C)     | 4,805,737          | 1.05         |
| 18.                                                                 | BNP Paribas Noms Pty Ltd (DRP)                         | 2,586,700          | 0.57         |
| 19.                                                                 | Tourchlight Securities Limited                         | 2,474,092          | 0.54         |
| 20.                                                                 | Mr Martin David Purvis                                 | 2,419,826          | 0.53         |
| <b>Totals: Top 20 holders of fully paid ordinary shares (Total)</b> |                                                        | <b>338,838,505</b> | <b>74.22</b> |
| <b>Total Remaining Holders Balance</b>                              |                                                        | <b>117,690,969</b> | <b>25.78</b> |

## GLOSSARY

|                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| \$ or A\$          | Australian dollar                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Ag                 | silver                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| ASX                | Australian Stock Exchange                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Au                 | gold                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| AuEq               | gold equivalent – gold plus silver expressed in equivalent ounces of gold using a conversion ratio dependent on prevailing gold and silver prices                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Board              | Board of Directors of Straits Resources Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| bcm                | bank cubic metres                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| CAD\$              | Canadian dollar                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Company or company | Straits                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Cu                 | copper                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| EU                 | European Union                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| for the year       | 12 months to 30 June 2012                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| FY                 | Financial year                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Fx                 | Foreign exchange                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| g                  | gram                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Goldminco          | Goldminco Corporation, a company incorporated in Canada and holder of exploration tenements in New South Wales, in which Straits held majority ownership at the balance date (subsequent to the balance date Straits has moved to 100% ownership).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Group              | Straits and its subsidiaries                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Injury Statistics  | <p><u>Lost Time Injury</u> (LTI) - An injury (including a fatality or permanent disability) that results in a minimum of one full shift absence from work.</p> <p><u>Restricted Work Injury</u> (RWI) - An injury resulting in a person not returning to his/her complete range of normal duties.</p> <p><u>Medical Treatment Injury</u> (MTI) - An injury requiring external/professional medical treatment (not first aid treatment only).</p> <p><u>Total Recordable Injury</u> (TRI) = LTI + RWI + MTI.</p> <p><u>Frequency Rate</u> (for LTIFR and TRIFR) - The number of occupational injuries expressed as a rate per million man hours worked. Usually calculated as a rolling 12 month average. Calculated as:<br/> <math display="block">\text{Frequency Rate} = \frac{\text{Number of injuries (LTI or TRI)} \times 1000000}{\text{number of hours worked}}</math></p> |
| IP                 | induced polarisation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| IPO                | initial public offering                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| kt                 | thousands of metric tonnes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| M                  | million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| oz                 | ounces                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Sb                 | antimony                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Straits            | Straits Resources Limited, ABN 30 147 131 977                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| tpa                | tonnes per annum                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| t                  | metric tonnes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| tpm                | tonnes per month                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| US                 | United States of America                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| US\$               | United States dollar                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| VMS                | volcanic massive sulphide                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

## CORPORATE DIRECTORY

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### Directors

|                   |                         |
|-------------------|-------------------------|
| Alan Good         | Non-Executive Chairman  |
| Milan Jerkovic    | Chief Executive Officer |
| Susan Vearncombe  | Non-Executive Director  |
| Alastair Morrison | Non-Executive Director  |
| Colin Wise        | Non-Executive Director  |

### Company Secretary

Matthew Smith

### Senior Management

|                 |                                                           |
|-----------------|-----------------------------------------------------------|
| Nic Earner      | Executive General Manager Operations                      |
| Peter Storey    | Executive General Manager Strategy & Business Development |
| David Greenwood | Executive General Manager External Affairs & Exploration  |
| Matthew Smith   | Acting Chief Financial Officer                            |
| Ivan Jerkovic   | General Manager Exploration                               |
| Harry Holle     | General Manager Technical Services                        |
| Don Zwart       | General Manager Human Resources                           |

### Operations & Projects

|                  |                             |
|------------------|-----------------------------|
| Rodney Griffith  | General Manager - Projects  |
| Stephen Playford | General Manager - Indonesia |

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### Registered and Head Office

Level 1  
35 Ventnor Avenue  
WEST PERTH WA 6005  
Tel: (08) 9480 0500  
Fax: (08) 9480 0520

### Share Registry

Computershare Registry Services Pty Ltd  
Level 2, 45 St George's Terrace  
PERTH WA 6000  
Tel: (08) 9323 2000  
Fax: (08) 9323 2033

### Website

[www.straits.com.au](http://www.straits.com.au)

### Stock Exchange Listing

Australian Stock Exchange Limited (ASX: SRQ)

### Auditors

PricewaterhouseCoopers

### Lawyers

Corrs Chambers Westgarth

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