

26 October 2012

## **Stratos to acquire majority interest (60%) in Billiton Island Tin Project**

- **Stratos to acquire 60% interest in significant integrated Tin project (the “Yinchen Tin Project”) which has historically produced 1-2% of global Tin production.**
- **The Yinchen Tin Project includes 11 granted highly prospective Tin tenements on Belitung (“Billiton”) Island with historical artisanal workings (indicating both alluvial and hard rock potential) and a Tin smelter with \$20m of historic capital investment.**
- **European based integrated metals and minerals group, Metalcorp, has agreed to arrange for a \$1.5m investment in Stratos to acquire 19.9% of Stratos and also arrange a \$5m trade finance facility for working capital purposes.**
- **Tennant Metals have agreed to an off take agreement, subject to final documentation, for 100% of the Tin produced.**
- **The Yinchen Tin Project is being acquired for a payment of \$1m in Stratos equity to Tennant Metals and a commitment to invest \$2m in developing the project, subject to due diligence and ASX/ Shareholder approval (if required).**
- **Tennant Metals staff and associates have agreed to separately invest \$150,000 in Stratos equity.**

Stratos Resources Ltd (ASX: SAT or “Stratos”) is pleased to announce that it has agreed to acquire a 60% interest in the Yinchen Tin Project on Belitung Island.

The Yinchen Tin Project is a significant Tin project based on Belitung Island that has historically produced 1-2 % of annual global Tin production. Belitung Island has a long mining history and culture and is where Billiton, the precursor to BHP Billiton (ASX: BHP), first commenced mining in the 1800s. Belitung and its sister island, Banka are the 2 key Tin production regions in

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Indonesia producing over 90% of Indonesia's Tin. Indonesia and China are the two largest Tin producers globally (each accounting for over 30% of global production) and with China being a net importer of Tin, Indonesia is the largest exporter of Tin globally. Further Details on the Yinchen Tin Project are set out in the appendix following this announcement.

Mr James Thompson, Director of Stratos Resources commented "The opportunity to acquire a majority interest in the Yinchen Tin Project on Billiton Island is an exciting development for us. The near term production characteristics of the project, historic production levels of 1-2% of global Tin production and experienced investment and off-take partners of the calibre of Tennant Metals and Metalcorp provide our shareholders with a compelling investment opportunity. This is a significant step in the company's development."

### **Investment Highlights**

- **Tin in Short Supply** The LME warehouses are at historical lows with significant supply shortfalls forecast. Key Tin commentators, including the main Tin association, the International Tin Research Institute ("ITRI"), are forecasting tightness in Tin supply and corresponding upwards price pressure. ITRI has forecast an increase from current price levels of \$21,700 to around \$25,000/ tonne next year with potential for \$30,000 – 35,000 in the period to 2016.
- **Major Tin Production Region:** The 2 major producers of Tin globally are China and Indonesia, each of which produced over 30% of global production in 2011. Chinese Tin is used domestically so Tin exported from Indonesia is the major export market globally. Yinchen has historically been a key player in this export market and currently has 11 Tenements of highly prospective ground
- **Premium Product:** Yinchen is one of the few projects globally which is able to produce LME Grade A with <50 ppm of Lead (Pb) (0.999 Grade A product) due to the use of the in situ lead chrySTALLISER to remove impurities via density separation techniques. This LME Grade A Tin sells for a 2-3% premium to LME standard tin which is a 0.9985 Grade A product.
- **Permits and Operating Licenses:** The Yinchen project is currently permitted for mining and smelter operations.
- **\$1.5m Equity Commitment:** Tennant's parent company, Metalcorp, has agreed to arrange (for an unrelated third party) to invest \$1.5m in Stratos. The investment will be structured as an equity investment of \$1.147m and an interest free loan of \$353,000.

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- **Tennant Metals Off Take:** Tennant Metals is one of Australia's oldest traders in the Asian region. Tennant have agreed to an off take agreement, subject to final documentation, for 100% of Yinchen's Tin production.
- **Strong Growth Markets:** Tin from Yinchen is likely to be sold to China or Taiwan for use as highly conductive solder in electronics. Tin is therefore exposed to the high growth Asian consumer markets (ie. electronic goods, mobile phones, white goods) including China which continues to grow at 7-8% p.a.
- **Ability to Process and Export:** The project includes a significant smelter facility with approximately \$20m of historical invested capital that has a historic name plate capacity of 1,200 tonnes/ month. The smelter has historically produced in the range of 300 – 500 tonnes/ month of tin. The smelter is located just 1 km from the main sea port facilities which will allow export of metals to key Asian markets for use as solder in the high growth electronics industry. The facility was constructed in 2004 and covers a 70,000 sqm area. The facility is in good condition (see picture 2 & 3 below). In order to improve operational capacity it is likely that an investment in upgrading the kiln facilities with new ceramic hearth lining will be required which has been budgeted at under \$500,000.
- **Trade Finance:** Metalcorp/ Tennant have agreed to provide market rate trade finance of \$5m to ensure sufficient working capital at the Yinchen Tin Project.
- **Attractive Deal Terms:** The effective purchase consideration is \$1m of Stratos equity. There is no cash purchase consideration. The investment is structured so that cash proceeds from the Metalcorp investment and existing Stratos resources will be directed to the development of the Yinchen Tin project. Further details are set out below.

## **KEY TERMS OF ACQUISITION AGREEMENT**

The key acquisition terms are set out below. The transaction is subject to due diligence, ASX and shareholder approval (if required):

- 1) SAT to acquire 60% interest in the Yinchen Project, to be held through a special purpose holding vehicle, in return for issuing \$1m of SAT equity to Tennant Metals (1 bn shares at 0.1 cents/ share)
- 2) Local Indonesian partners will retain up to 30% of the project and Tennant Metals will also retain a 10% direct project interest
- 3) Tennant Metals will provide an off-take contract for 100% of the Yinchen Project Tin output.

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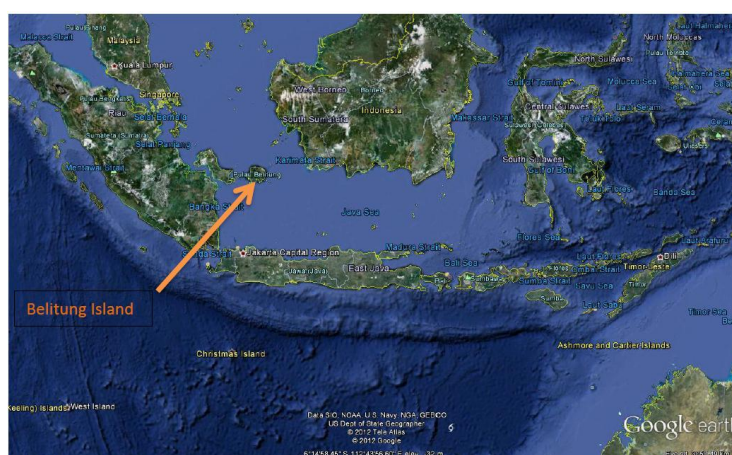
- 4) Metalcorp has agreed to arrange \$1.5m in equity finance from an unrelated third party (the Metalcorp Third Party or “MTP”) to acquire 19.9% of SAT’s existing equity. The investment will be structured as an issue of 1.147bn shares at 0.1 cents/ share (\$1.147m) plus an interest free loan for \$0.353m. The loan is repayable by 31 December 2014 from operating cash flows or can be applied to funding option grants (see 5 below).
- 5) The MTP will be issued with 4 tranches of options that allow the MTP to potentially top up its investment in the event of a future capital raising. The options can only be exercised if such exercise does not result in MTP’s shareholding exceeding 19.99% or if MTP is in compliance with the other ASX rules including the 3% creep provisions or the takeover rules. The options tranches are 300m options at an exercise price of 0.1c, 300m options at an exercise price of 0.125c, 300m options at an exercise price of 0.15c and 300m options at an exercise price of 0.2c. The term of all options is 2 years.
- 6) SAT to invest a minimum of \$2m in the Yinchen project in working capital, geological studies (as appropriate), repairs or refurbishment of furnace facilities.
- 7) While MTP holds over 10% of SAT it shall have the right to appoint a board member. While Tennant Metals holds over 10% of SAT it shall have the right to appoint a board member.
- 8) Metalcorp/ Tennant are to provide, subject to due diligence and final documentation, a \$5m trade finance facility to fund working capital including the acquisition of key inputs such as tin concentrate, coking coal and other inputs.
- 9) Tennant Metals staff and associates have agreed to invest \$150,000 in Stratos. The investment is for 150m shares at 0.1c/ share with a 1 for 1 free attaching option at 0.3c/ share with a 30 June 2014 expiry date.
- 10) SAT will have a 45 day exclusive period to finalise due diligence and complete documentation.

**ENDS**

## APPENDIX – DETAILS ON THE YINCHEN TIN PROJECT

### THE REGION

The Yincheng Tin Project is based on Belitung (“Billiton”) Island, which has a significant mining history and culture and is where Billiton Mining (now BHP Billiton) first commenced mining operations in the 1800s. Belitung and its sister island, Bangka are the largest single tin export regions globally. The islands are located on the busy shipping routes of the Java Sea. Belitung Island is 150kms in diameter and is approximately equidistant by sea from Singapore, Malaysia and Jakarta.



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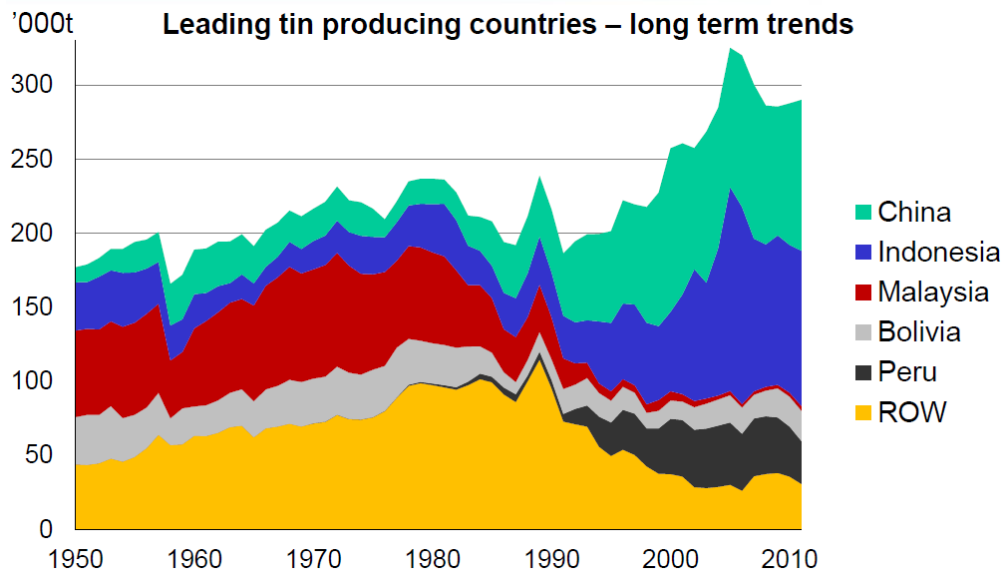
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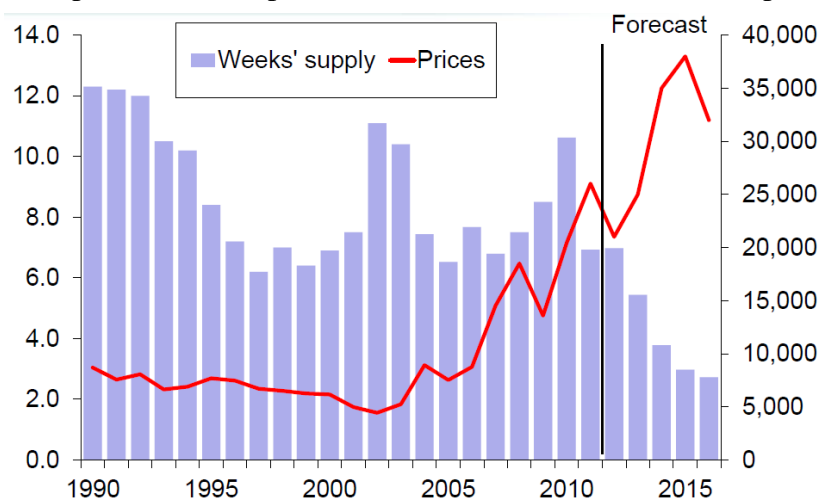
## THE TIN MARKET

China and Indonesia currently represent 70% of global tin production. As China is a net importer of tin, Indonesia is the most significant driver of the world's tin export market. Tin is predominantly used in solder and is therefore exposed to the rapid industrialization of China and other developing economies and third world economies as they acquire various electronic devices including mobile phones, televisions, whitegoods, motor vehicles.



*ITRI PRESENTATION*

The tin price is currently \$21,700/ tonne and many commentators are predicting a tight supply side and consequent tin price strength in the near to medium term. ITRI is predicting a price of \$25,000 next year (Barclays & BNP Paribas have also both put out recent forecast for US\$25,000 next year) and forecast potential for a price of \$30,000 to \$35,000 over the period to 2016.



*ITRI PRESENTATION*

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## THE PROJECT

The Yinchen Tin Project is an integrated tin production and processing facility that includes both 1,200 Ha of prime tin tenements on Billiton (which have been historically mined by local artisanal miners for input to the smelting facilities (see figure 1) and have significant alluvial and hard rock potential) and a significant smelting facility that allows Yinchen to sell and export processed premium LME Grade A Tin.



Figure 1: Artisanal Miners using gravity separation of alluvial deposit on Yinchen tenement

Yinchen's smelting facility was established in 2004 and has historically produced 300 to 500 tonnes per month of processed tin from its 70,000 sqm facility on Belitung Island (see figures 2 and 3). The project is currently on care and maintenance pending a re-investment in the kiln of approximately \$500,000 to upgrade ceramic hearth lining of the kiln facility and allow for a restart of the project. The historical production rate equates to 1-2% of global tin production (2010 global production: 300,000 tonnes).

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Figure 2 & 3: Yinchen's 70,000 sqm smelting facility on Belitung Island



Figure 4 & 5: Tin Concentrate and Sampling for analysis prior to smelting operations



Figure 6 & 7: Tapping of molten tin from the smelter and vat pouring ready for continuous casting of ingot





Figure 8: Ready LME Grade A (<50ppm Pb) 25 kg tin ingots ready to pack and ship to markets from Yinchen smelting facility

The smelting facility ensures that Yinchen is not subject to the Indonesian ban on export of tin concentrate and instead exports processed tin is in line with Indonesian government policy Contract of Works to value add to its natural resources where possible.

#### **NEXT STEPS**

The focus of due diligence will include an initial geological review of the tenements by CSA Global's Jakarta office which has had significant experience in the tin sector (both alluvial and hard rock). Stratos is also in the process of appointing technical review experts to review the processing facility and in relation to Indonesian legal review. Steinepreis Paganin are engaged to provide Australian legal advice.

A key focus during due diligence will be on determining most efficient method of returning the Yinchen project to its historical production levels of 300- 500 tonnes/ month. This is likely to require capital expenditure of the order of \$500,000 on upgrade/ replacement of the kiln facilities to allow for continuous or semi-continuous operation.

Through the provision of the Metalcorp investment (\$1.5m) and trade finance facility (\$5m), the Yinchen Tin Project is anticipated to be properly funded for working capital to mine and procure tin concentrate from its concessions. There may also be scope over time to increase the capacity of the smelter to 1,200 tonnes/ month with the establishment of a second production line, to be funded out of working capital. Where possible the operations will outsource key mining and smelting activities but maintain financial, assaying and operational control.

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