

Estrella Resources Limited (ASX: ESR)

SPECULATIVE BUY

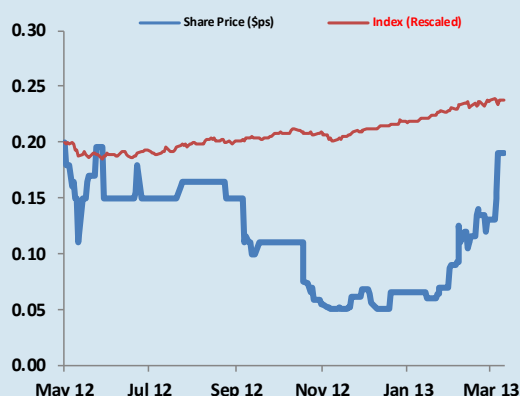
VALUATION: A\$0.50

SHARE PRICE: A\$0.19

COMPANY DATA

Share Price (AUD/sh)	0.19
12m Target Price (AUD/sh)	0.50
Issued Capital (M)	87.1
Market Capitalisation (AUDm)	16.5
Year High - Low (AUD/sh)	0.20 - 0.05
Cash (AUDm)	3.9
Debt (AUDm)	0.0
Gearing ND/(ND+E)	0.0%
Average Monthly Turnover (AUDm)	0.0

ESR vs ASX 200 INDEX



PERFORMANCE

	1M	3M	12M
Absolute	72.7%	280.0%	na
Relative to ASX 200	69.8%	241.0%	na

MAJOR SHAREHOLDERS

	1M	3M	12M
Pancho (NSW) Pty Ltd			5.8%
Rocky Rises Pty Ltd			5.5%
KFT Capital Pty Ltd			5.5%
GJN Holdings Pty Ltd			5.5%
Morgan Stanley Aus Sec Pty Ltd			4.9%
HSBC Custody Noms			4.2%
J P Morgan Noms Aus Ltd			4.2%
Helmsec Global Capital Ltd			3.8%
Essen Consultancy Ltd			3.0%

BOARD

Gavin Solomon	Non-Executive Chairman
Jason Berton	Managing Director
Julian Bavin	Non-Executive Director
Simon Kidston	Non-Executive Director

Estrella Signs MoU to Acquire Advanced “Brownfields” Projects from SQM

SUMMARY

Estrella Resources Ltd (ESR) has signed an Option Agreement with SQM, a Chilean major, to earn up to 100% of 3 “brownfields” projects Colupo, Dania and Ivannia into the Project Altair tenement portfolio.

Shallow drilling at Colupo by SQM has returned significant high grade copper results and mineralisation remains open at depth and in all directions. SQM drilling at Dania and Ivannia has also intersected copper and demonstrates the extent and potential of the mineralisation in the region. The areas surrounding Colupo, Dania and Ivannia all falls within ESR’s Project Altair, and provides substantial exploration upside.

Colupo, Dania and Ivannia are located just ~15km north of Antofagasta’s Antucoya Project (642 Mt @ 0.35% Cu). In late 2011, Japanese trading house Marubeni farmed into Antucoya paying US\$350M for 30% of the project valuing it at over US\$1.1bn.

This latest deal comes only 1 month after signing a binding option agreement for Project Altair itself. We view this latest deal with SQM as a major positive in that it rapidly advances and de-risks ESR’s exploration strategy and also goes towards demonstrating the strength of ESR’s relationship with a major such as SQM.

ESR offers investors an opportunity to gain exposure to early stage copper and gold projects in an established mining area. We maintain our SPECULATIVE BUY recommendation and 12 month target price of A\$0.50.

KEY POINTS

- Subject to satisfactory due diligence, ESR has up to 3 months to sign a binding option agreement for Colupo, Dania and Ivannia. These projects will add a further 3,346ha into ESR’s Project Altair which consists of 256,000ha encompassing a major portion of northern Chile’s IOCG belt.
- Very limited shallow historical drilling on Colupo has returned significant high grade copper results, including:
 - 31 m @ 1.39% Cu from 28 m (ARCO 02)
 - 22 m @ 0.98% Cu from 28 m (ARCO 10)
 - 39 m @ 0.63% Cu from 1 m (ARCO 11)
 - 8 m @ 1.34% Cu from 55 m (ARCO 11)
 - 35 m @ 0.60% Cu from 6 m (ARCO 08)
- Only minimal exploration for base and precious metals has ever been undertaken by SQM given their predominant focus on industrial chemicals.

FIGURE 1: LOCATION OF PROJECT ALTAIR



PROJECT ALTAIR

In December 2012, Estrella signed a landmark MoU with Sociedad Quimica y Minera de Chile S.A (**SQM**), a Chilean major, for the creation of a 5 year option agreement to earn up to 100% of Project Altair (**Altair**). Altair covers a total area of 2,560km² and is largely contiguous tenement package located in Region II of Northern Chile, approximately 80km northeast of Antofagasta.

Altair covers a large area of northern Chile's IOCG belt and therefore has the potential to host numerous significant deposits. The Project also runs along the Atacama Fault Zone for approximately 130km, which is the main structural corridor that hosts many of Chile's major mining deposits (Antucoya, Tovaku, Candelaria, Andacollo and La Productora).

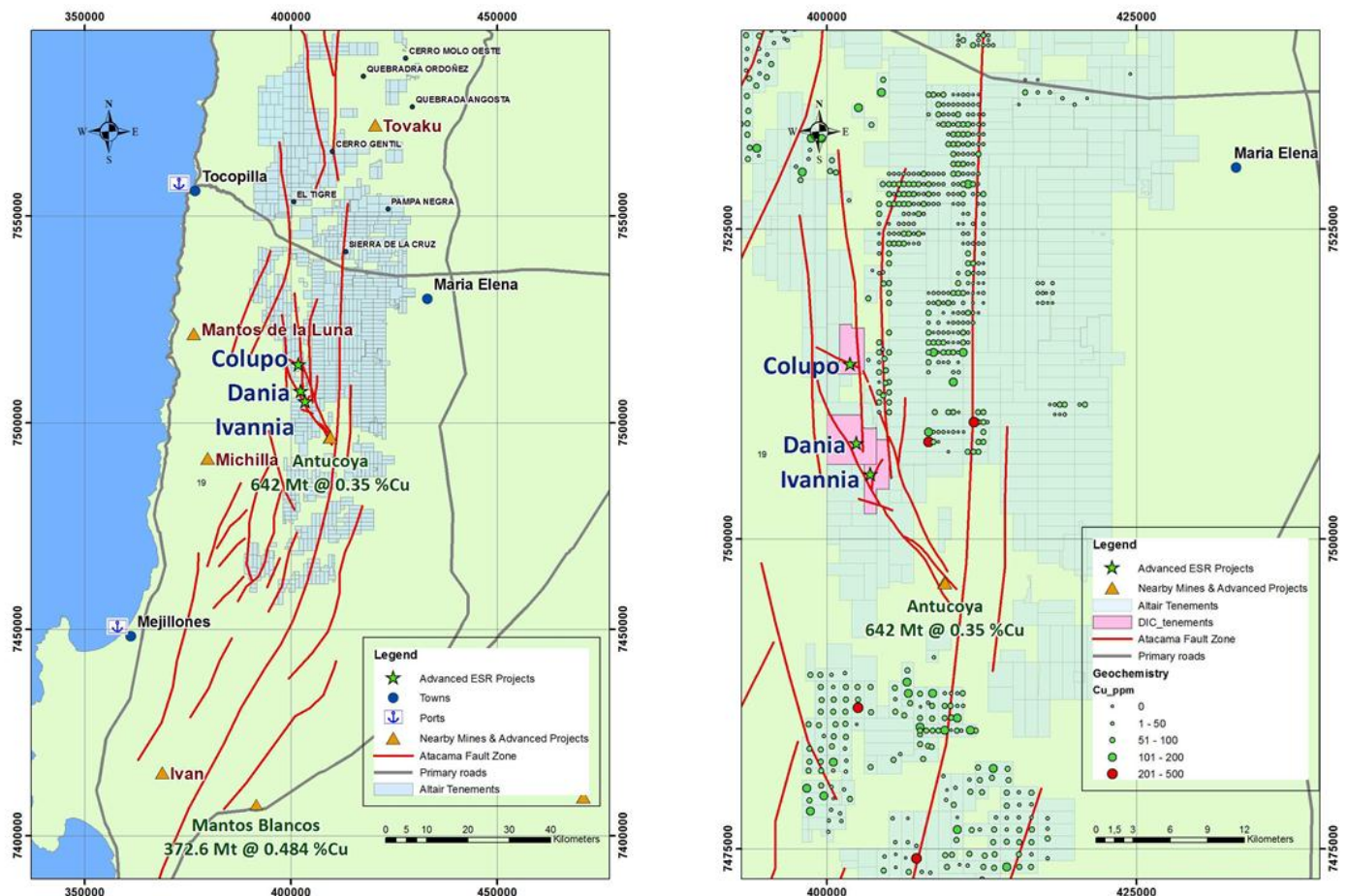
Under the option agreement ESR has the right to earn up to 100% of all metal discoveries on Altair by funding all expenses to the completion of a PFS. SQM retains all rights to all nitrate potassium, iodine and lithium discoveries. SQM may elect to earn back to 49% interest in any metal discovery by funding its pro-rata (49%) share of funding following the completion of the PFS. Alternatively, SQM may choose to receive a revenue based royalty stream if it forgoes the "back- in" right. A nominal option fee is payable as well as annual minimum expenditure requirements based on the acreage held.

SQM is one of the largest integrated miners and producers of chemicals in the world and is the world's largest producer of potassium nitrate, iodine and lithium. SQM produces specialty plant nutrients, iodine and derivatives, lithium and derivatives, potassium chloride and industrial chemicals being a mining company and one of the largest companies in Chile, SQM holds a substantial portfolio of exploration assets which are highly prospective for base and precious metals.

Following extensive due diligence by Estrella, the option agreement to acquire Project Altair was signed on 18 February 2013. The transaction permits SQM to leverage off Estrella's significant base and precious metal exploration and mining expertise while simultaneously granting Estrella access to some of the most sought after land in Chile.

Today's announcement looks to have built upon this relationship with a very short time frame and is consistent with Estrella's stated strategy of consolidating quality copper-gold assets in Chile. Not only does Colupo, Darnia and Ivannia significantly advance Estrella's exploration programme, the three projects also demonstrate the prospectivity of the whole region. Colupo, Dania and Ivannia all fall within Altair and are immediately surrounded by existing Altair grounds. This allows Estrella to fully capture any extensions of the potential mineralisation system throughout the entire region.

FIGURE 2: LOCATION OF COLUPO, DANIA AND IVANNIA WITHIN THE BROADER PROJECT ALTAIR



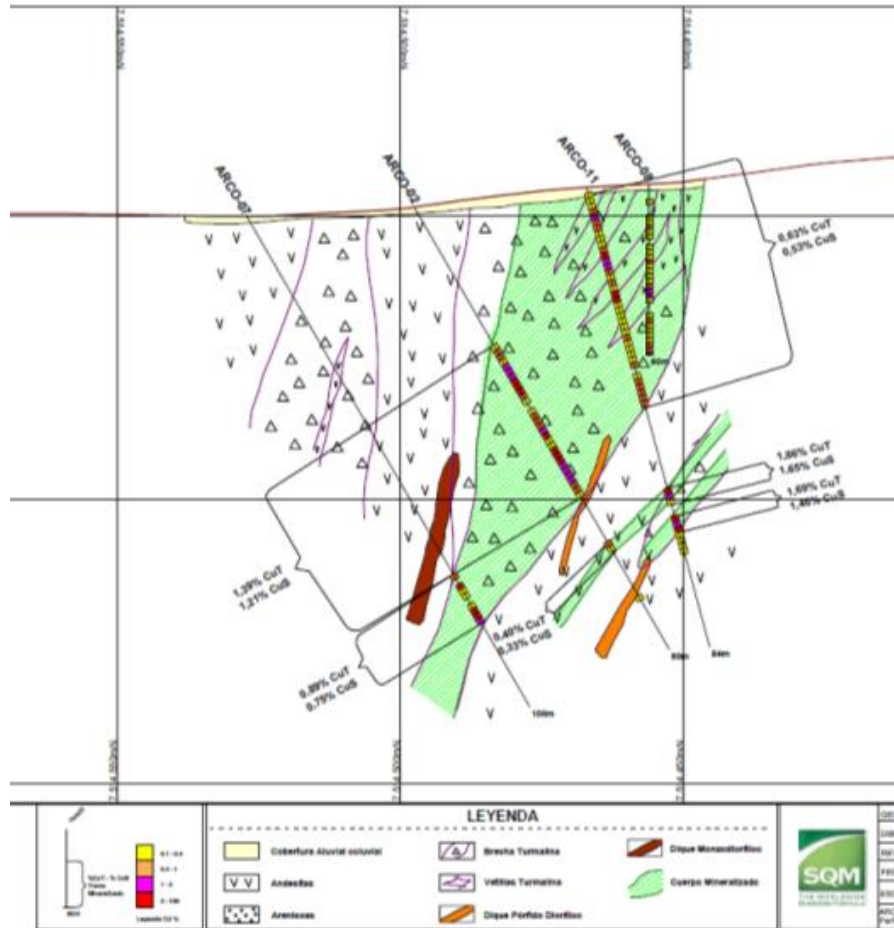
COLUPO

Colupo covers 870ha and features mineralised tourmaline breccias within the volcanic rocks of La Negra Formation. It is situated between intersecting NNE to NE and NW trending faults that extend from Antucoya, to Ivannia, Dania, and continue beyond Colupo.

To date, SQM has drilled 15 reverse circulation (RC) holes to a limit of 70m vertical depth at Colupo. The summary of RC drilling results below show that Colupo is a high grade copper deposit. The mineralisation starts from surface and is open at depth below 70m and in all subsurface directions.

- 31 m @ 1.39% Cu from 28 m including:
 - 6 m @ 2.02% Cu from 32 m;
 - 2 m @ 3.13% Cu from 45 m; and
 - 7 m @ 2.52% Cu from 49 m.
- 22 m @ 0.98% Cu from 28 m;
- 39 m @ 0.63% Cu from 1 m including:
 - 1m @ 2.00% Cu from 5 m;
 - 3 m @ 2.26% Cu from 12 m; and
 - 2m @ 1.54% Cu from 19 m.
- 8 m @ 1.34% Cu from 55 m;
- 35 m @ 0.60% Cu from 6 m including:
 - 2 m @ 2.35% Cu from 21 m; and
 - 6 m @ 1.40% Cu from 34 m.
- 48 m @ 0.48% Cu from 17 m including:
 - 1 m @ 1.14% Cu from 17 m; and
 - 1 m @ 5.84% Cu from 32 m.

FIGURE 3: SQM DRILL CROSS-SECTION AT COLUPO INDICATING MINERALISATION FROM SURFACE AND ONLY TESTED TO VERTICAL 70M DEPTH



DANIA

The Dania project covers 1,476ha and hosts a copper, molybdenum and gold mineralised porphyry system and remains open at depth and requires further exploration in all subsurface directions.

SQM conducted an exploration program in 2010 – 2011 which consisted of 19 RC drill holes (to a maximum depth 200 m) for a total of 1,961 metres. From the work done, SQM have defined a non-JORC compliant Resource of 10Mt @ 0.20% Cu. Estrella has not yet received gold assay results for Dania.

Drill results include:

- Hole ARDA 5:
 - 22 m @ 0.30% Cu from 58 m; and
 - 9 m @ 141 ppm Mo from 75 m.
- Hole ARDA 8:
 - 37 m @ 0.23% Cu from 2 m; and
 - 12 m @ 0.42% Cu from 61 m.
- Hole ARDA 1:

- 9 m @ 208 ppm Mo from 62 m;
- 10 m @ 129 ppm Mo from 88 m;
- 10 m @ 0.23% Cu from 141 m;
- 7 m @ 112 ppm Mo from 144 m; and
- 7 m @ 0.29% Cu from 154 m.
- Hole ARDA 11:
 - 11 m @ 0.38% Cu from 10 m;
 - 10 m @ 153 ppm Mo from 54 m; and
 - 4 m @ 0.56% Cu from 35 m.

IVANNIA

The Ivannia project covers 1,000 ha and similar to Dania in that it is also a copper, molybdenum and gold mineralised porphyry system.

SQM conducted an exploration program in 2010 – 2011 which consisted of 28 shallow RC drill holes (to a maximum depth 110 m) for a total of 1,870 metres and 8 deeper RC holes (150 to 300m depth) for a total of 1,860 metres. Other exploration work by SQM includes petrological (polished and thin-section) analysis.

From the work done to date, SQM have defined a Non-JORC compliant Resource of 5Mt @ 0.12% Cu. Estrella has not yet received the complete drill hole database and results for Ivannia.

Drill results include:

- Hole ARIV 30:
 - 2 m @ 0.29% Cu.
- Hole ARIV 32:
 - 14 m @ 0.23% Cu.
- Hole ARDA 19:
 - 86 m @ 0.10% Cu.

Whilst SQM drill results for Dania and Ivannia are modest in copper grade they are very significant in the regional context, demonstrating that the regional mineralisation extends far beyond Antofagasta's Antucoya Project (642Mt @ 0.35% Cu).

WORK PROGRAMME

Once the option agreement is in place, Estrella will incorporate the due diligence results into a revised exploration programme to re-prioritise exploration targets. It is expected this first phase program will involve additional infill soil sampling and supported by geophysical surveys such as magnetics, radiometrics and induced polarisation (IP).

As stated earlier, whilst the initial land package may appear to be "too big" for a junior such as Estrella, it does afford significant optionality for the company. Further, we expect the management to quickly and sensibly relinquish tenure of lesser value. A high level exploration program combined with existing data will quickly allow Estrella to hone in on the highest priority targets to then start a drill campaign.

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