

Estrella Resources Limited (ASX: ESR)

SPECULATIVE BUY

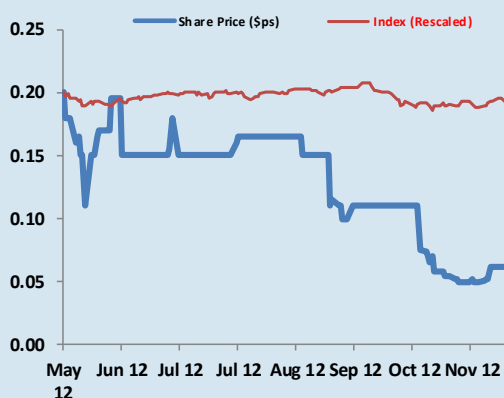
VALUATION: A\$0.50

SHARE PRICE: A\$0.06

COMPANY DATA

Share Price (AUD/sh)	0.06
12m Target Price (AUD/sh)	0.50
Issued Capital (M)	87.1
Market Capitalisation (AUDm)	14.8
Year High - Low (AUD/sh)	0.20 - 0.05
Cash (AUDm)	4.3
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	na	na	na
Relative to ASX 200	na	na	na

MAJOR SHAREHOLDERS

	1M	3M	12M
GJN Holdings Pty Ltd			5.6%
Rocky Rises Pty Ltd			5.5%
KFT Capital Pty Ltd			5.5%
Pancho (NSW) 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 Landmark MoU with SQM for Major Project in Chile – Project Altair

SUMMARY

ESR has signed a landmark MoU with SQM, a Chilean major, for the creation of a 5 year option agreement to earn up to 100% of Project Altair. Project Altair covers a total area 250,000ha and is located along the prospective Atacama Fault Zone. This transaction forms the basis of a longer term relationship between Estrella and SQM to unlock value in some of the most sought after virgin grounds in Chile. SQM is listed on NYSE and has a market cap of US\$14.5B (NYSE.SQM).

KEY POINTS

- Altair covers an area of 250,000 ha which comprise of numerous contiguous tenements in northern Chile near Antofagasta. Over the term of the option agreement ESR will gradually reduce this land holding as it pinpoints areas of greatest prospectivity.
- 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).
- The mineralisation types in the region are quite diverse. They range from mantos, epithermal systems, breccia pipes to porphyries.
- The Altair ground has been exclusively held by SQM since the 1920s. However, only minimal exploration for base and precious metals has ever been undertaken given SQM's predominant focus on industrial chemicals.
- Estrella remains well-funded to undertake the initial exploration program at Altair.
- Naturally, Estrella may re-prioritise its current exploration/drilling program on other projects subject to the results of this initial Altair work program.
- 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.

OPINION

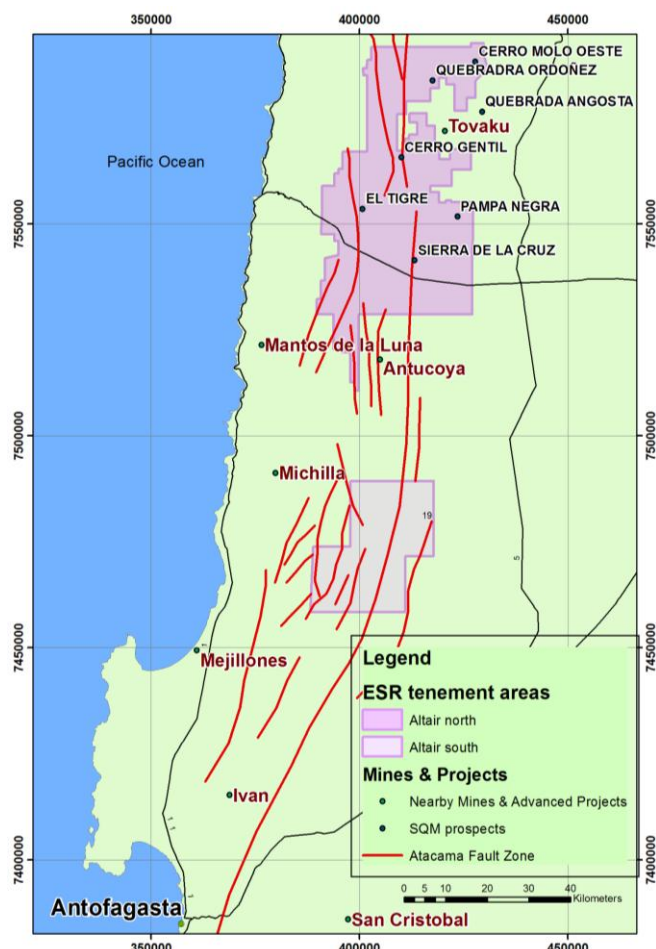
SQM is also one of the largest and most reputable companies in Chile. Estrella's ability to negotiate a transaction of this scale with SQM is impressive.

We believe Project Altair is potential company transforming for Estrella. The project is centrally located in the heart of the Atacama Fault Zone, arguably the most prospective and mineralised region in Chile. Given the maturity of the copper industry in Chile, very limited opportunities currently exist to access to projects of this scale and prospectivity. Putting into perspective, Altair places Estrella in the league of the majors in terms of exploration tenure.

Whilst 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.

Altair is an high impact addition to Estrella's portfolio and is consistent with the company's strategy of consolidating quality copper-gold assets in Chile. Given the prospectivity, it is not unlikely that even early exploration work may produce successful results. At the current price, Estrella is trading below cash backing and is highly leveraged to exploration success. We retain our SPECULATIVE BUY.

FIGURE 1: ALTAIR LOCATION AND TENEMENT



Source: Company Report

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