

Wednesday, 9 May 2012

Howard Humphreys

Director and Lead Research Analyst

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Capital Structure

Stock Code	ASX: ESR
Share Price	A\$0.20
Ordinary Shares	87.1m
ITM Options*	7.2m
Total Options	-
Market Cap (Fully-Diluted)	A\$17.4m
Less: Cash	A\$6.1m
Add: Debt	-
Enterprise Value	A\$11.47m

*in-the-money options

Source: Estrella Resources

Directors & Management

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

Top Shareholders*

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. Nom.	4.9%
HSBC Custody Nominees	4.2%
JP Morgan Nominees Aust.	4.2%
Total Top 7 Shareholders	36%

*as at 2 May 2012

Source: Estrella Resources

Estrella Resources

12 Month Target Price: A\$0.46 (See p. 6)

Investment Outlook:

Risk Assessment:

Recommendation: Strong Speculative Buy



A junior copper explorer in the Chilean copper belt

Estrella Resources Limited (ASX: ESR) is a junior copper-gold explorer primarily focused on developing its flagship Agustina Copper-Gold Project (100% ESR). The project covers an area of 18.5km² that is located ~90km northeast of the mining town of La Serena, in prolific copper-producing belt of central northern Chile (see Figure 2, p. 4). Agustina is an advanced exploration-stage project with 'drill-ready' exploration targets. The Company is aiming to release a maiden JORC-compliant resource at Agustina by the first quarter of 2013.

By developing a portfolio of copper-gold projects in northern Chile (close to La Serena), ESR is looking to emulate the success of other ASX-listed companies, like Hot Chilli (ASX: HCH), but on an accelerated time frame. By the point at which HCH had defined a resource, its share price had more than trebled (see Figure 1, p. 3). This took over 16 months for HCH, while ESR plans to get there in less than 9 months.

ESR boasts a strong management team and Board. Dr. Jason Berton, the Company's Managing Director, is a specialist structural geologist with over 12 years' experience. On the ground in Chile, ESR will be managed by Juan Pablo Vargas de la Vega, a Chilean national with over 10 years' experience with Santos, Rio Tinto and BHP. Julian Bavin, on ESR's Board, is a Chilean resident with over 30 years' experience in mining, including 8 years as Rio Tinto's former Exploration Director for South America. Juan Pablo's and the Board's local networks afford a sound position for ESR to expand its asset portfolio on favourable terms.

Second in the development pipeline is the Venus Project (100% ESR), where the Company has secured 46 exploration concessions, covering an area of 85km² immediately to the south of Agustina. This area, where copper is currently being mined and processed on-site by small-scale artisanal (informal) miners, is seen by ESR as a regional extension of the known mineralisation at Agustina. The Company is planning to start a field program at Venus in Q3 2012.

Background

Estrella Resources Ltd (ASX: ESR) was incorporated in May 2011 to identify, source, acquire and develop a package of Chilean copper-gold assets. The Company's strategy is to focus on advanced (brownfields) projects, with evidence of historic mining and access to mining infrastructure. ESR has relied upon its unique in-country expertise to acquire and develop a portfolio of advanced and grass roots exploration assets, which are all located in established mining regions in central northern Chile.

"ESR's strategy is to focus on advanced projects, with evidence of historic mining and access to infrastructure."

The Company recently listed on the ASX, raising A\$6 million in the process (before costs of the IPO), to primarily develop its flagship Agustina Copper-Gold Project (100% ESR), located ~90km northeast of the port of La Serena, in Chile's prolific copper belt. At Agustina, ESR has already undertaken an induced polarisation ('IP') survey that has identified 'drill-ready' exploration targets (chargeable anomalies) at the Orion and Centauri prospects. Based on drilling across this target, ESR expects to release a JORC-compliant resource during Q1 2013.

"ESR has identified 'drill-ready' exploration targets over which ESR expects to release a JORC-compliant resource in Q1 2013"

Mining in Chile

Chile is the world's largest producer of copper and hosts some of the world's largest copper and copper-gold mines. Chile has 38% of the world's known copper reserves and is one of South America's most stable and prosperous nations. Chile is very supportive of mining, allowing for 100% foreign ownership, as well as providing legal protection of mining concessions and a clear foreign investment framework. Chile is rated by mining executives as one of the world's best jurisdictions for mining.

"Chile is rated by mining executives as one of the world's best jurisdictions for mining."

Price-Sensitive Milestones

Immediately after listing, ESR plans to commence a 2,000m drilling campaign at Agustina, targeting a recently-identified electrical resistivity (chargeable) anomaly as well as near-surface mineralisation. This drilling, as well as field work at the Luna and Venus projects, should provide the basis for value appreciation. In the medium term, ESR is targeting to release a copper-gold resource at Agustina in the first quarter of 2013; within nine months of listing on the ASX. See Figure 1 for a more detailed breakdown of ESR's planned project development over the coming year.

"Immediately after listing, ESR plans to commence a 2,000m drilling campaign at Agustina..."

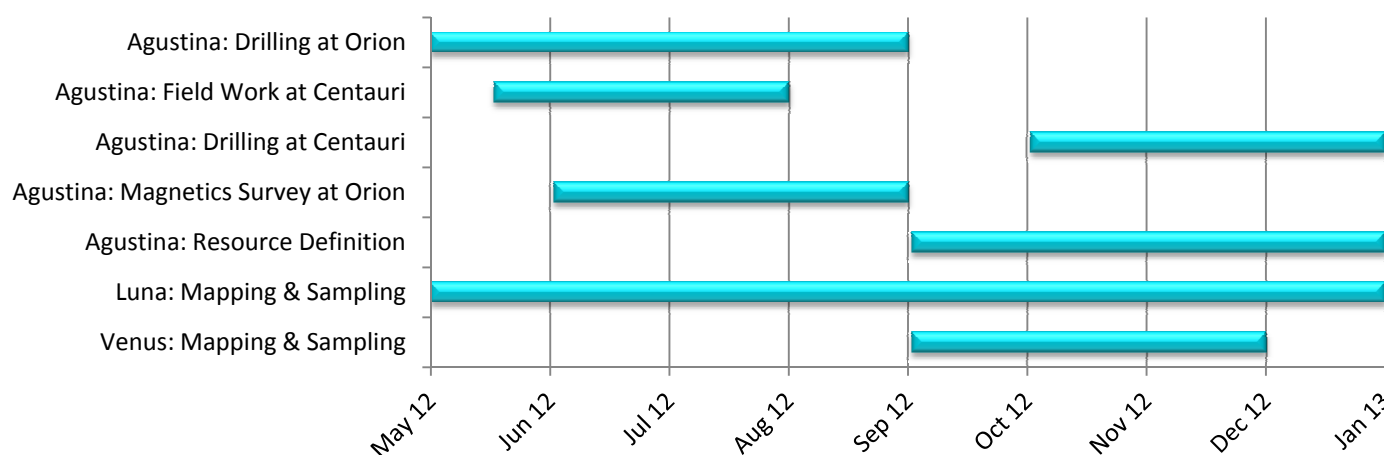
Management Team

Dr. Jason Berton, ESR's Managing Director, is a specialist structural geologist with over 12 years' experience in gold, copper, uranium and iron ore exploration with Barrick Gold, Homestake, BHP Billiton and SRK Consulting. On the ground in Chile, ESR's day-to-day activities will be managed by Juan Pablo Vargas de la Vega, the Company's General Manager. Juan Pablo has over 10 years' experience with Santos, Rio Tinto and BHP Billiton in Australia, Africa and South America, and is a Chilean and Australian citizen and a native Spanish speaker.

"Dr. Jason Berton, ESR's Managing Director, is a specialist structural geologist with over 12 years' experience..."

Jason is supported by Gavin Solomon, as Non-Executive Chairman, Julian Bavin, as a Non-Executive Director, and Simon Kidston, as a Non-Executive Director. Gavin has over 30 years' experience in equity capital markets and was a founding Director of Endocoal (ASX: EOC). Julian, who is based in Santiago, has over 30 years' experience in mining, including 8 years as Rio Tinto's former Exploration Director for South America. While Simon is an investment banker with over 20 years' experience; Simon was a founding Director of Carabella Resources (ASX: CLR).

Figure 1: Estrella Project Development Timeline



Source: Estrella Resources and Seismic Research

Investment Outlook: 
 Risk Assessment: 
 Recommendation: **Strong Speculative Buy**

Investment Outlook

Chile is Hot – ESR is Walking on Proven Ground

ESR is looking to replicate the experience of companies like Hot Chili (ASX: HCH), but on an accelerated time frame. The Company is targeting to release a JORC-compliant resource at Agustina within 9 months of listing (during Q1 2013), based on a drilling program to commence shortly. With a resource at around nine months from listing, ESR will be well on its way to replicating the success of HCH (see Figure 1).

“With a resource at around 9 months from listing, ESR will be well on its way to replicating the success of HCH”

Hot Chili’s pathway to its current position, as an explorer-developer with a copper-gold resource, is outlined by the points and chart below. By the point at which HCH had defined a resource (85Mt at 0.6% Cu), its share price had more than trebled (see Figure 1).

“By the point at which HCH had defined a resource (85Mt at 0.6% Cu), its share price had more than trebled.”

1. **03/05/2010:** HCH lists on the ASX
2. **23/11/2010:** Maiden drilling results at Productora
3. **17/03/2011:** Drilling uncovers “wide zone” at Productora
4. **06/09/2011:** Maiden copper resource at Productora

Figure 1: The Hot Chili (ASX: HCH) Experience



Source: Bloomberg and Seismic Research

Experienced Management Team

ESR’s management team boasts a broad skill set with a wealth of experience across geology, project management, financial markets and hands-on exploration expertise. Dr. Jason Berton, ESR’s Managing Director, is a specialist structural geologist with over 12 years’ experience with some of the world’s largest mining companies. While Juan Pablo Vargas de la Vega, ESR’s man on the ground in Chile, has over 10 years’ experience with Santos, Rio Tinto and BHP Billiton. ESR’s on-the-ground team and Juan Pablo’s and the Board’s local network allow ESR to potentially expand its asset portfolio on favourable terms.

“...Juan Pablo’s local connections allow ESR to potentially expand its asset portfolio on favourable terms.”

Risk Assessment

Early-Stage Exploration Risk

ESR is an early-stage explorer. While the likelihood of defining a resource at Agustina is good, at this stage it is uncertain whether the potential resource will be large enough or of a sufficient grade to support a mining operation. The presence of historic mines and visible mineralisation, however, including adits into the underground mineralised veins, de-risks the exploration process at Agustina and hints at the potential for an economic resource to be discovered.

“The presence of historic mines and visible mineralisation ...de-risks the exploration process at Agustina...”

Low Regulatory Risk

Chile is generally viewed by the mining industry as a safe and stable country, with minimal regulatory risk. The Fraser Institute’s Survey of Mining Companies ranked Chile 7th in the world on the Policy Potential Index (with a score of 79.1/100), which measures the attractiveness of a country’s policies from the perspective of a mining company. In this 2009-10 survey, Chile was not only ranked above all other South American countries, but also above all Australian states.

“Chile was not only ranked above all other South American countries, but also above all Australian states.”

Table 1: Estrella Resources Project Summary

Project	Ownership	Area	Deposit Type	Stage	Commodities
Agustina	100%	18.5km ²	Iron Oxide Copper Gold	Advanced Exploration	Copper-Gold
Venus	100%	85km ²	Iron Oxide Copper Gold	Grass Roots	Copper-Gold
Luna	100%	208km ²	Epithermal Copper-Gold	Grass Roots	Copper-Gold
Inca	91.5%	54km ²	Epithermal Gold	Grass Roots	Gold

Source: Estrella Resources

The Agustina Project (100% ESR)

The project consists of 15 contiguous exploration and mining concessions that cover an area of ~18.5km² in central northern Chile, ~75km northeast of La Serena (see Figure 2). The project is located close to key infrastructure, including road, rail, power and ports; is less than 10km from a new processing facility; and can access underground water 13km northwest of the project.

"The project is located close to key infrastructure...and is less than 10km from a processing facility..."

Agustina is an advanced exploration project that is highly prospective for iron oxide copper gold ('IOCG') style systems. The project hosts two advanced exploration prospects: the Orion and Centauri copper-gold ('Cu-Au') prospects. At the Orion prospect, ESR has identified five drilling targets.

"Agustina is an advanced exploration project that is highly prospective for iron oxide copper gold ('IOCG') style systems."

The Orion Prospect – Ready to Drill

The Orion prospect hosts a number of mine adits that intersect at least 10 parallel mineralised Cu-Au structures, with widths ranging from 4m to 50m, over a strike length of 4km. A recently-completed induced polarisation ('IP') survey suggests that these mineralised structures overlie a previously-unidentified large electrical resistivity anomaly (indicating the presence of sulphide mineralisation) that is 1.5km long, 600m wide and at a depth of 300m from surface.

"...an IP survey suggests that these... [10] structures overlie a previously-unidentified large electrical resistivity anomaly."

ESR is planning to commence a maiden 2,000m diamond drilling program at Orion imminently, to primarily test this promising target under the existing mine adits. The rig has been transported to the site and the drill pads and sumps have been prepared. The results from this program are expected to be released between July and September 2012.

A Secondary Target: The Centauri Prospect

Agustina hosts several additional copper, gold and iron ore prospects; some have been exploited historically on a small scale. The Centauri Prospect, ESR's second in line in terms of exploration work, also hosts a number of artisanal gold workings. Recent sampling of stockpiles at Centauri by SRK Consulting has returned some very high-grade results, including 69.25g/t Au, 13.15g/t Au, 9.01g/t Au.

Infrastructure and Logistics

The Agustina project is located at relatively low altitude (600-900m above sea level), giving ESR year-round access for its exploration activities (unlike many Chilean projects). The project is easily accessible via a good condition, 6km gravel road that leads to the Pan American Highway. Agustina is also 10km from a cape gauge rail line running to the Port of Coquimbo (in La Serena), 10km from high-voltage power lines and can potentially access underground water sources located 13km northwest of the project area.

"Agustina is easily accessible via a good condition, 6km gravel road that leads to the Pan American Highway."

Figure 2: Project Location



Source: Seismic Research

Project Overview

Processing & Lab Facilities

Newly-constructed concentrator facilities, with latent capacity, (see Figure 3) are located ~5km from Agustina, potentially allow for processing of bulk samples and early-stage production options. The plant, which is owned by a private operator, has a total capacity 350,000t p.a. and the required water rights are in place. In terms of ESR's exploration activities there are also numerous local labs of major international mining service companies at La Serena (located ~75km southwest of Agustina) to reliably test drilling samples; thereby allowing for quick turnaround times for drilling results.

"Newly-constructed concentrator facilities...are located within 10km of Agustina...allowing for early-stage production..."

Figure 3: Nearby Processing Facility



Source: Estrella Resources

Venus Project (100% ESR)

The Venus Project (100% ESR), located 75km northwest of La Serena, consists of 46 exploration concessions covering an area of 85km² immediately adjacent to Agustina. Due to its close proximity to Agustina, Venus is also very well-placed in terms of infrastructure access, including road, rail, power and water. It is also located close to labs in La Serena and is less than 10km from the plant pictured above (see Figure 3).

"The Venus Project...consists of 46 exploration concessions covering an area of 85km² immediately adjacent to Agustina"

Venus is a grass roots exploration project that is seen by ESR as a southern regional extension of the Agustina Project. The project hosts an operating artisanal (informal) copper mining operation (see Figure 4) with a small processing plant. The presence of artisanal mining highlights the potential for economic copper-gold mineralisation. ESR plans to commence a three-month reconnaissance mapping and sampling program at Venus in September 2012.

"The project hosts an operating artisanal (informal) copper mining operation with a small processing plant."

Figure 4: Artisanal Copper Mine Adit at Venus



Source: Estrella Resources

Luna-Inca Project (91.5%-100% ESR)

The Luna (100% ESR) and Inca (91.5% ESR) tenement package is located ~90km southeast of the Port of Coquimbo in La Serena. The project covers an area of 262km² (of which Inca is a 54km² subset), which is located in close proximity to projects owned by Barrick Gold, Codelco, Teck Cominco and BHP Billiton. Luna-Inca has excellent access, with a Barrick Gold-Codelco joint venture sealed road running through the centre of the project area.

"The project...is located in close proximity to projects owned by Barrick Gold, Codelco, Teck Cominco and BHP Billiton."

Luna-Inca is a grass roots project prospective for high-grade epithermal (hydrothermal-related vein system) copper-gold deposits. The exploration focus is on a structural corridor, which hosts five small-scale copper, gold and silver mines, within high-grade epithermal systems. Initial grab sampling results include 5.2% Cu and 5.4% Cu. ESR plans to commence a follow-up reconnaissance mapping and sampling program at Luna-Inca in the final quarter of 2012.

"Luna-Inca is a grass roots project prospective for high-grade epithermal copper-gold deposits."

Figure 5: Copper-Rich Ore from Workings at Luna-Inca



Source: Estrella Resources

Company Comparables & Valuation

Table 2: Chile Copper Company Comparables

Company	Price	Mkt Cap	EV	Cu Resource ¹	EV/lb Cu ¹	Cu Grade ²	Stage
Hot Chili (ASX: HCH)	A\$0.59	A\$118m	A\$94m	1,492Mlbs	A\$0.06/lb	0.80%	Explorer (Cu, Au, Mo)
Metminco (ASX: MNC)	A\$0.18	A\$315m	A\$273m	10,963Mlbs	A\$0.02/lb	0.54%	Explorer (Cu, Au, Mo, Zn)
Alara Res. (ASX: AUQ)	A\$0.40	A\$86m	A\$68m	774Mlbs	A\$0.07/lb	1.05%	Explorer (Zn, Cu)
Estrella Res. (ASX: ESR)	A\$0.20	A\$17.4m	A\$11.5m	Q1 2013	-	-	Explorer (Au, Cu, Ag)
Average – Explorers Only					A\$0.05/lb	0.80%	

1. Copper equivalent resource based on relative prices, 2. Cu-equivalent grade

Source: Bloomberg, company data and Seismic Research

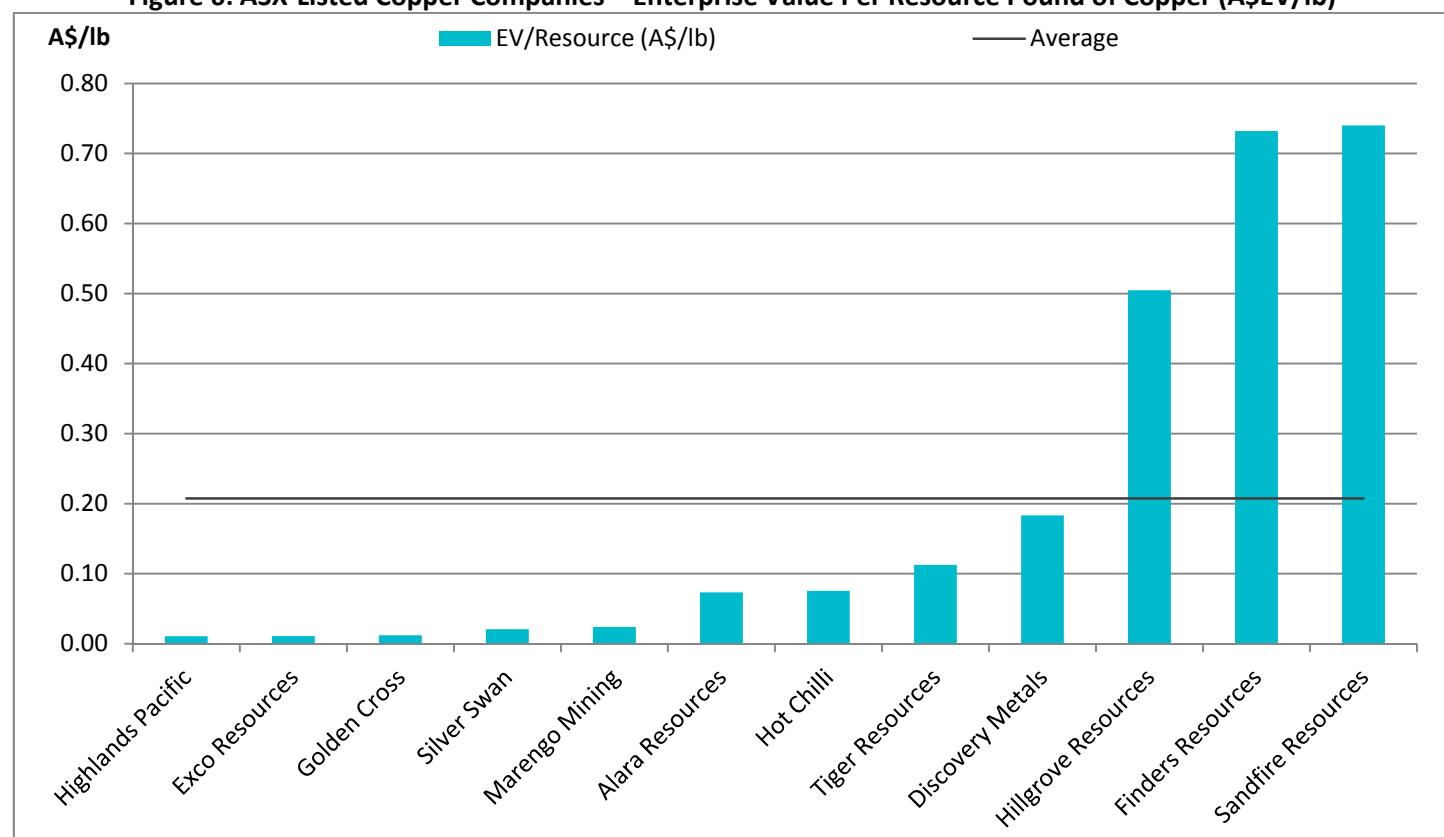
Copper Comparables

As illustrated in Table 2 and Figure 6, Seismic Research has calculated the enterprise value ('EV') per pound ('lb') of contained copper ('Cu') for three comparable explorers with JORC-compliant resources in Chile and the EV/lb of Cu resource for 12 comparable ASX-listed companies. The average EV/lb for all 12 (using closing prices on 8-05-12) was A\$0.21/lb Cu.

ESR Company Valuation

Seismic Research has applied the average EV/lb of contained Cu for the selected ASX-listed comparables of A\$0.05 to our estimation of the exploration potential at Agustina. Assuming a target of 30Mt at 1.00% Cu-equivalent and applying the average EV/lb of A\$0.05/lb, we have calculated a 12-month price target for ESR of A\$0.46/share.

Figure 6: ASX-Listed Copper Companies – Enterprise Value Per Resource Pound of Copper (A\$EV/lb)



Source: company data, Bloomberg and Seismic Research

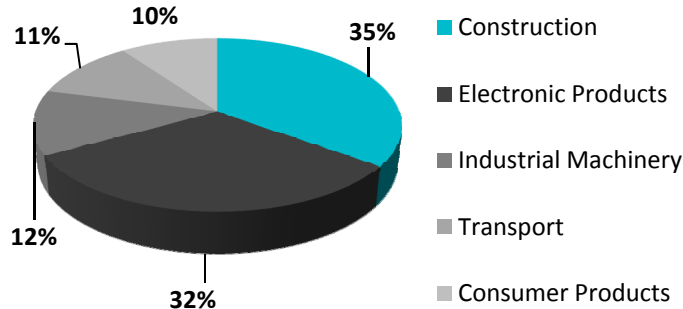
The Copper Industry

Copper Demand

Copper is an industrial metal with many applications, due to its properties of corrosion resistance and thermal and electrical conductivity. Around 67% of refined copper consumed annually goes to the construction and electronics industries (see Figure 6). The remaining demand is spread almost evenly across industrial machinery, transport and consumer products.

What is Copper Used For?

Figure 6: Uses of Copper (2010)



Source: Brook Hunt

Copper Demand Outlook

The recent growth in copper consumption (and the increase in prices) has, to a large extent, been determined by China's urbanisation cycle. But China, already the world's largest consumer of copper, is only at the beginning of its urbanisation cycle in comparison to advanced economies like the U.S. and Europe (see Table 3). Meanwhile, India, another very populous developing nation, is a relatively small consumer of copper. India lags behind China in terms of urbanisation; so it stands to consume a lot more copper in the coming years.

Table 3: Urbanisation Trends, China and India

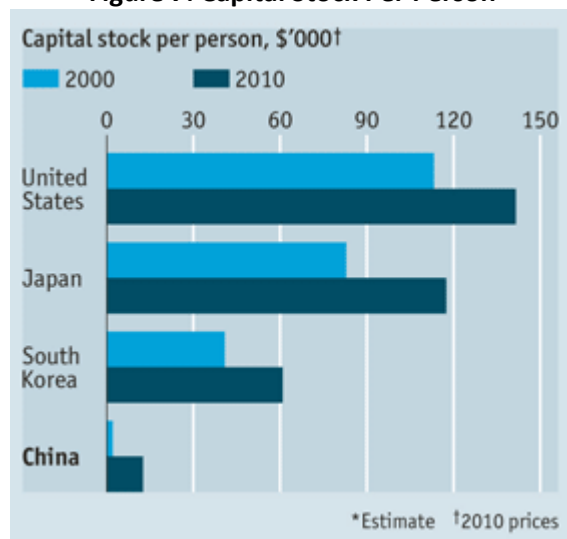
	China	India
Cities with > 1m people	221, by 2025 (increase of 71)	68, by 2030 (increase of 26)
People living in cities	1,000m, by 2025 (increase of 350m)	590m, by 2030

Source: McKinsey Global Institute, China: Mar 09 and India: Apr 10

Qualitatively, consider two important facts about Europe and the U.S. when reading the above table: 1. today, Europe has only 35 cities with over 1 million people, and 2. currently, the entire U.S. population is only ~311 million. A good quantitative measure of development, industrialisation and urbanisation in an economy is the capital stock*. Even taking into account the recent surge in investment between 2000 and 2010, China is still very far behind more developed nations in Asia as well as the U.S. (see Figure 7) in terms of capital stock per person.

**the capital stock can be loosely defined as the quantity of already-produced durable goods, less depreciation, used in the production of other goods and services.*

Figure 7: Capital Stock Per Person



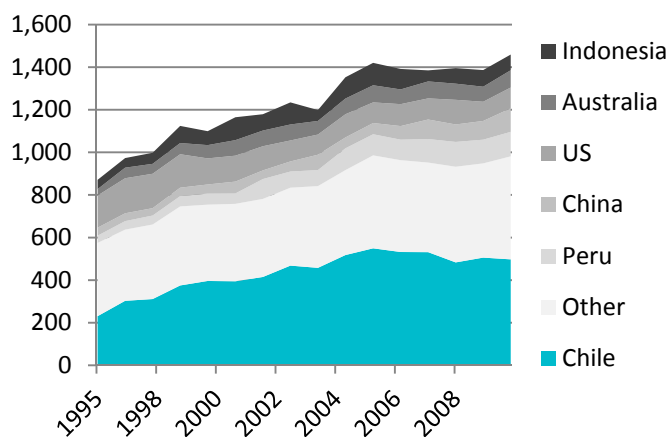
Source: IMF, HSBC, the Economist

Copper Supply

Copper Supply Outlook

Much of the growth in the output of copper ore over the past 20 years has been sourced from large porphyry copper mines in Chile and Peru (see Figure 8). But by 2015, three of the world's largest copper concentrate producers (Grasberg, Bingham Canyon, and Chuquicamata) are expected to run out of open pit ore and switch to underground production. As a result, production rates are expected to fall.

Figure 8: Production of Cu Ores and Concentrates (kt)



Source: World Bureau of Metal Statistics

Declining Mine Head Grades

Mine head grades have been declining across the sector, from ~1.6% Cu in 1980 to ~1.1% Cu in 2010. Global reserves have an average grade of 0.94% Cu and global resources have an average grade of 0.71% Cu. These lower grades (in reserves and resources) are expected to increase the cost of production, thereby putting upward pressure on the price of copper.

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