

MINING RESEARCH

Stratex International

3.75p

Inlice and Altintepe definitive agreement

3 February 2010

Stratex has now formalised the agreement with NTF to develop the Inlice and Altintepe oxide gold projects. NTF will continue to fund scoping/pre-feasibility and feasibility studies for both projects before making the decision to move into production. The joint venture company is targeting production for 18 months and 36 months for Inlice and Altintepe respectively. Stratex currently has sufficient funds for 22 months with which it will continue to develop a portfolio of projects in Turkey and Ethiopia. We maintain our BUY recommendation with a target price of 7.6p per share, slightly decreased following the admission of shares from the company's placing to raise £1.3 million on 27 January.

Stratex valuation

Component	Project	Value (£m)	Value Per Share (p)
NTF JV	Inlice (45 % of NPV ₁₀)	4.1	1.43
	Altintepe (45% of NPV ₁₀)	11.9	4.15
Centerra JV	Oksut	1.8	0.65
Teck JV	Hasançelebi	1.2	0.42
Cash and Investments	Sheba Exploration	2.6	0.94
TOTAL		21.7	7.60

Stratex has now formally signed a Definitive Agreement with NTF Insaat Ticaret Ltd Sti (NTF) to jointly develop the 98,000 ounce Inlice and 472,318 ounce Altintepe oxide gold projects. The joint venture terms have been finalised and to this end, the joint venture company (JVC) NS Madencilik has now been established.

NTF can earn into 55% of the JVC by completing pre-feasibility and feasibility studies at Inlice. The Altintepe project will be the subject of initial scoping and pre-feasibility studies, the successful outcome of which will see Altintepe also transferred into the JVC and the commencement of pre-feasibility and feasibility studies. Ultimate implementation of the agreement will occur following a closure period that will allow for completion of a number of administrative matters.

The terms of the agreement are as follows:

- NTF to pay Stratex US\$1 million
- NTF to fund Inlice feasibility studies up to US\$2 million.
- NTF to fund Altintepe scoping and pre-feasibility studies up to \$500,000, a successful outcome leading to funding of feasibility studies up to a further US\$2 million
- To fund further development at Inlice, NTF and Stratex may obtain debt funding or Stratex may contribute, dilute and/or accept a \$2 million loan from NTF. At Altintepe Stratex will have the option to contribute or dilute

BUY

ANALYST

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COMPANY DESCRIPTION

Exploration and development company focused on gold and base metals in Turkey and Ethiopia

INVESTMENT DATA

Ticker	STI
Listing	AIM
No. of shares	286.7m
Market cap.	£9.35m
EV	US\$11.3
EV/ounce	US\$15.43

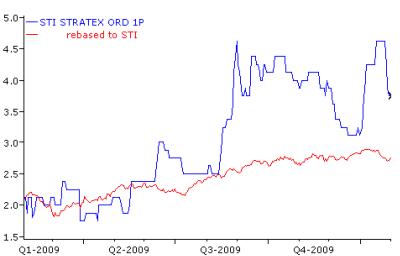
SHAREHOLDERS Holding (%)

Teck Limited	12.4%
Kairos Inv MGMT Ltd	11.7%
Orion Trust Ltd	8.9%
Nick Graham	9.2%
David Hall	4.4%

SHARE PRICE PERFORMANCE %

12m relative performance	+13.3
3m relative performance	-8.8
1m relative performance	+13.6

12M SHARE PRICE PERFORMANCE



FTSE All Share rebased to CEY

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Continues overleaf

JVC studies

NTF has already been funding the scoping and pre-feasibility studies at the two gold projects since the MOU was signed in June 2009. At Inlice these studies include completion of 899 metres of infill drilling on the Ana East and Gap Zones, channel sampling of the eastern extension of Ana East, and further drill-definition of the talus resource. At Altintepe, these studies include an environmental baseline study, reviews of past drilling and recommendations for resource drilling.

The JVC intends to fast-track Inlice into production during H2 2011 with a provisional mine life of three years, subject to the feasibility studies. Current estimates of production are not less than 25,000 ounces per annum. Production at Altintepe is provisionally planned to commence in three years time at rates of between 30,000 and 50,000 ounces per annum, over a mine life of eight to nine years.

Exploration portfolio

In addition to Inlice and Altintepe, Stratex is advancing its exploration portfolio in Turkey and Ethiopia. In Turkey, in conjunction with its joint venture partner Centerra Gold Inc., Stratex intends to drill test key outcropping zones and extend geophysical surveys over the wider Öksüt project. At Hasançelebi, which the company is developing through its joint venture with Teck Resources, the company is planning a minimum 2,000 metres drill programme that will be funded by Teck.

In Ethiopia, the focus will be drilling of the Tsemmetti gold target within the Shehagne licence. This is scheduled for H2 2010. In addition to the drilling, Stratex will continue exploration within the Shehagne licence with a focus on the search for mesothermal gold and VMS-type gold-base metal deposits. At the Megenta licence, in the Afar region of the Rift Valley, drilling is planned during H2 2010 to test for low-sulphidation epithermal mineralisation.

Valuation and recommendation

The signing of the Definitive Agreement is one step closer to monetising the Inlice and Altintepe gold projects. The company remains on track with its development plan for the two gold projects whilst continuing to grow its exploration portfolio in Turkey and Ethiopia. Stratex has cash of £2.6 million, sufficient to take it through the next 22 months or so. An additional US\$1.0 million from NTF is anticipated upon closing the agreement. We maintain our **BUY** recommendation with a target price of 7.6p per share.

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