

22 December 2010

BUY

Mining

Price 8.3p
Target Price 11p

Company description

Exploration and development company focusing on gold and high-value base metal projects in Turkey, Ethiopia and Djibouti

Key data

Ticker	STI
Listing	AIM
No. of shares (m)	286.78
Market cap (£m)	23.9
Enterprise value (£m)	22.9

Top-five shareholders (% holding)

Teck Limited	12.46
Kairos Investment Mngmnt	11.82
Orion Trust Ltd	9.09
Nick Graham	9.25
David Hall	4.37

Relative performance

Period:	1mn	3mn	12mn
Performance (%)	28.7	113.0	90.7

Price/AIM All-Share rebased to STI



Pricing: Fidessa, as of 22 December 2010.

Marketing communication

Westhouse Securities acts as nomad and broker to Stratex International and is paid fees for these services

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Stratex International

All set for 2011

Stratex International (AIM: STI) has had a good year, rising 113% year on year, comfortably beating the market by 90.7%. This was due to the huge strides the company has been making since the start of the year, both in Turkey and East Africa, where the Stratex has discovered an extensive new gold district. One of the highlights of the year was the signing of a heads of agreement with Thani Ashanti, a major endorsement of both Stratex and its assets in Ethiopia and Djibouti.

However, we believe that 2010 was largely about laying the foundations through new JV agreements and exploration licences. Next year will be about building on these foundations, with the feasibility due at Inlice, a resource update at Altintepe and drilling at Öksüt, Hasaңelebi and Muratdere. Most exciting, Stratex will drill its first holes in Ethiopia, at Megenta, while continuing its wider exploration programme.

We have revised our sum-of-the-parts valuation to include the latest agreements. Our target price is 11p per share, a 35% premium to the current 8.3p share price. Very little of this value is attributed to East Africa at this stage, but we expect this will change once drilling begins. We maintain our BUY recommendation.

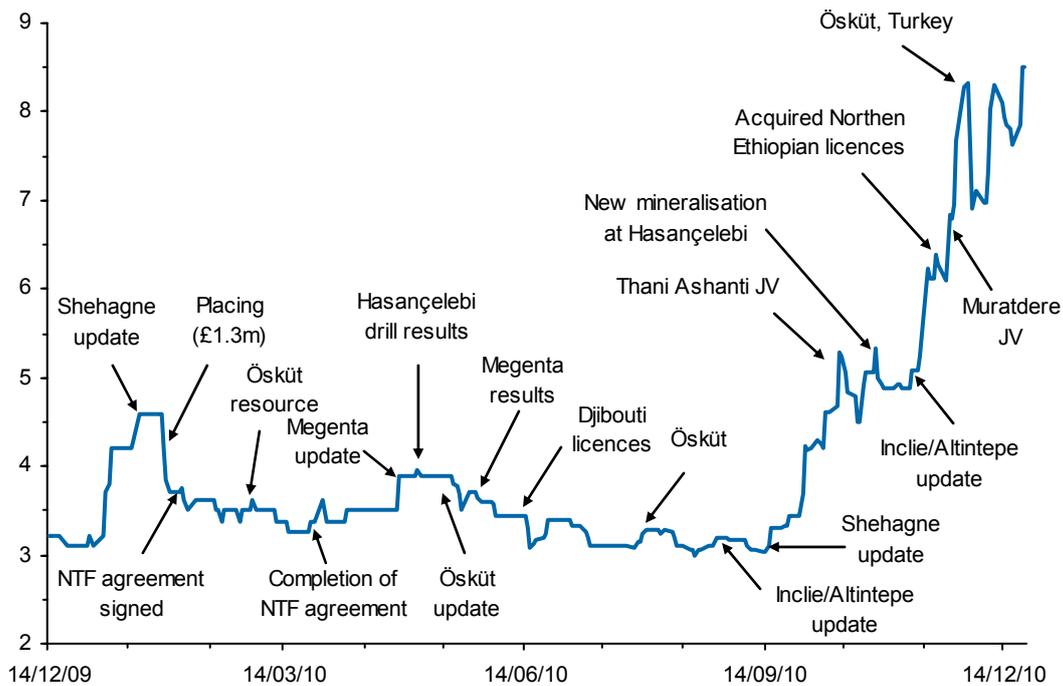
Key news flow expected in 2011

- Feasibility study at Inlice due for release in February 2011.
- First gold at Inlice in 2012.
- Resource update at Altintepe in Q1 2011.
- Confirmation of commitment by Centerra at Öksüt in January 2011.
- Confirmation of commitment by Teck at Hasaңelebi in January 2011.
- Drilling to continue at Öksüt and Hasaңelebi.
- Results of drilling at Muratdere in Q1 2011.
- Drilling at Megenta, Ethiopia to start February 2011.
- Detailed mapping and sampling at Tigray in Ethiopia, including AbiAdi-Gichke.

A good year for Stratex: Outperforms market by over 90% in 2010

Stratex International (AIM: STI) has had a good year in 2010, with the share price rising 113% year on year, comfortably beating the market by 90.7%. This was due to the huge strides the company has been making since the start of the year, both in Turkey and East Africa, where Stratex has discovered an extensive new gold district. However, the share price only responded in September, once investors realised the value that the company has been creating since the change in strategy in 2009.

Key events in 2010



Source: Fidessa, Westhouse Securities.

Highlights for the year 2010

After raising £1.3m at the end of January 2010, Stratex has formed three new JV partnerships, securing significant additional licences in Ethiopia and Djibouti, while continuing to make notable discoveries and advance its major projects. One of the highlights of the year was the signing of a heads of agreement (HOA) with Thani Ashanti, a major endorsement of both Stratex and its assets in Ethiopia and Djibouti.

We have summarised the year's key milestones below.

Turkey

- Signed a key JV agreement with NTF İnsaat Ticaret (NTF) to develop Inlice and Altintepe (3 February), with the agreement completed on 27 April.
- Completed further resource drilling at Altintepe, focussing on the oxide material. This will lead to a resource upgrade in Q1 2011 (9 November).
- Completed leach test work and initial pit designs for Inlice (9 November).
- Completed initial drilling programme at Hasaңelebi, following detailed mapping. This was funded entirely by Teck Madencilik Sanayi and confirmed the potential for a low-grade, high-tonnage, near-surface gold mineralisation over a distance of 1-2km. (4 May, 26 October).

- Announced a new JV with Turkish company Aydeniz Group for the Muratdere porphyry copper-gold-molybdenum project (23 November). Aydeniz will earn 55% of project by funding 2,500m of drilling, which has already started.
- Having defined an initial oxide resource of 147,814oz of oxide gold at Öksüt (2 March), further drilling with JV partner Centerra Gold has identified multiple zones of gold and copper mineralisation. The mineralogy suggests that they are drilling close to a porphyry gold-copper system and results to date suggest that there is potential for large-tonnage low-grade mineralisation. (28 July, 30 November).

East Africa (Ethiopia and Djibouti)

- Awarded six new licences in Djibouti, extending Stratex's existing licence area in the Afar Depression across the border from Ethiopia (9 May).
- Signed a binding HOA with Thani Ashanti, an AngloGold Ashanti Limited joint venture company, to fast-track development of Stratex's projects in the Afar Depression of eastern Ethiopia and Djibouti (12 October).
- After encouraging results on 18 January, Stratex completed a channel-chip sampling programme at Shehagne extending the area of known mineralisation by 440m to 1,340m. The mineralisation is still open to the south-west (16 September)
- Carried out extensive geological and structural mapping with associated channel-chip sampling at Megenta, identifying broad areas of mineralisation. This indicated the presence of significant gold mineralisation at the very top of what is believed to be a major low-sulphidation gold system (24 May, 7 June).
- Acquired additional licence areas covering 1,562km² in the Afar Region and at Tigray (29 March).
- Secured an option over the 967km² AbiAdi-Gichke gold project in Tigray, Northern Ethiopia, with LozBez Mining (18 November).

Set to build on the successes of 2010 in 2011

Despite the undeniable progress during the past year, we believe that 2010 was largely about laying the foundations, through new JV agreements and acquiring exploration licences, to allow the company to grow. Next year should be the year what Stratex builds on the successes of 2010, to turn some of its highly prospective licences into actual resources and take its Turkey assets towards production. This is in line with the company's twin-track or two-pronged strategy.

Firstly Stratex aims to move its projects into production, while minimising risk. The first two of Stratex's projects likely to enter production are Inlice and Altintepe in Turkey, which Stratex is developing alongside its JV partner NTF. By using a local partner with extensive construction experience, Stratex is reducing the development risk while creating a company capable of developing projects which may be seen as being of insufficient scale as stand-alone projects.

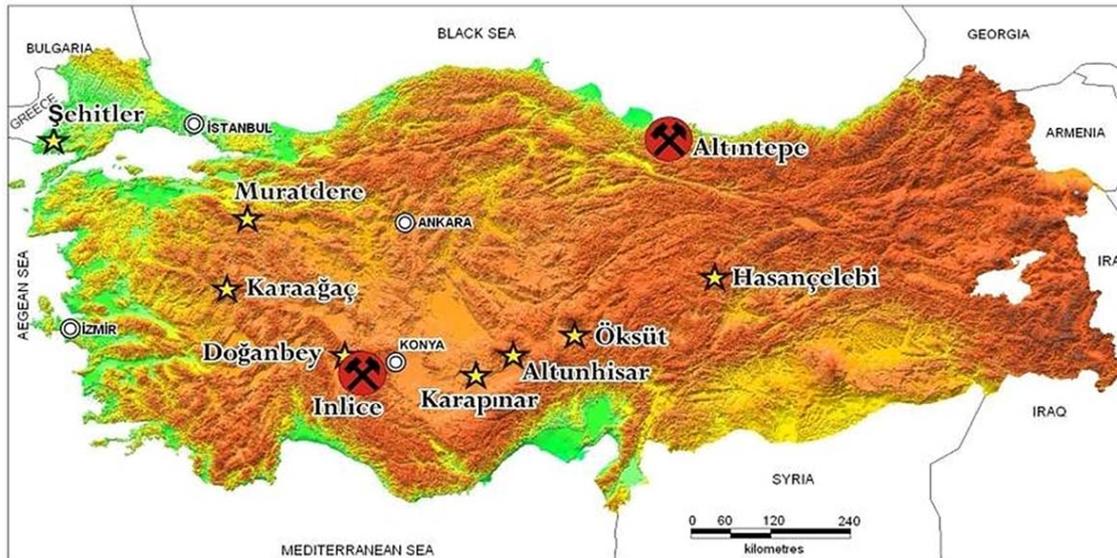
The second aim is to discover and develop new projects at low cost, particularly when funded by its partners, before optioning/joint venturing or selling the project to a dedicated mining development company.

Stratex now has a significant number of projects at various stages, from early grassroots exploration through to feasibility, that have the potential to provide substantial value to the company next year.

We have summarised the key projects and agreements below, highlighting the important milestones which should add value to the company in the coming year.

Turkey

Location of Stratex's projects in Turkey



Source: Stratex International.

Inlice

As discussed earlier, Stratex and NTF announced a production joint-venture agreement in April 2010, at which point NTF paid Stratex US\$1m, giving them 55% ownership of the new gold mining company, NS Madencilik.

Stratex has vended the Inlice project into the new company in exchange for an earn-in of up to US\$2m by NTF, to fund the feasibility studies.

The project currently has an *in-situ* gold resource of:

- *In situ* oxide 70Koz at 2.29g/t
- Talus oxide 28.3Koz at 0.65g/t
- *In situ* sulphide 164Koz at 1.78g/t

The initial focus will be on the *in situ* oxide and talus for a low-capex, open-pit, heap leach operation. Although the talus is lower grade, it is loose material and therefore requires no blasting, making it is cheaper to mine. Stratex is currently looking for a 20k-30k operation over three years. Final metallurgical test work and the environmental impact assessment (EIA) are currently under way, with the full feasibility expected to be completed in January 2011.

Altintepe

As part of the production JV agreement, NTF will continue to finance up to US\$0.5m for the drill-based scoping studies at Altintepe. If these are positive, Altintepe can be vended into NS Madencilik and NTF will have the option earn an interest of up to 55% of Altintepe by expending a further US\$2m on a full feasibility study.

The current resource at Altintepe is 472.3Koz at 1.12g/t. However, the company completed the latest round of resource drilling in November and we expect a resource update in Q1 2011. Although work is progressing on the scoping study, the company's focus is very much on the nearer-term production at Inlice; so we are not expecting much news on the scoping study until after the Inlice feasibility study is complete.

Stratex key projects in Turkey

Project	Status	Area (km ²)	Drilled (m)	Gold resource (oz)	JV Partner	Funding (US\$m)
Inlice	Feasibility	43	10,886	262,300	NTF	2
Altintepe	Scoping (+ Feasibility)	16.5	5462	602,500	NTF	0.5
Öksüt	Advanced Ex.	109.4	7596	147,814	Centerra	3
Hasançelebi	Advanced Ex.	352.1	2,524	-	Teck	2
Karaağac	Exploration	111.2	2,368	156,798	seeking	-
Muratdere	Exploration	34.5	1,212	-	seeking	-

Source: Stratex International.

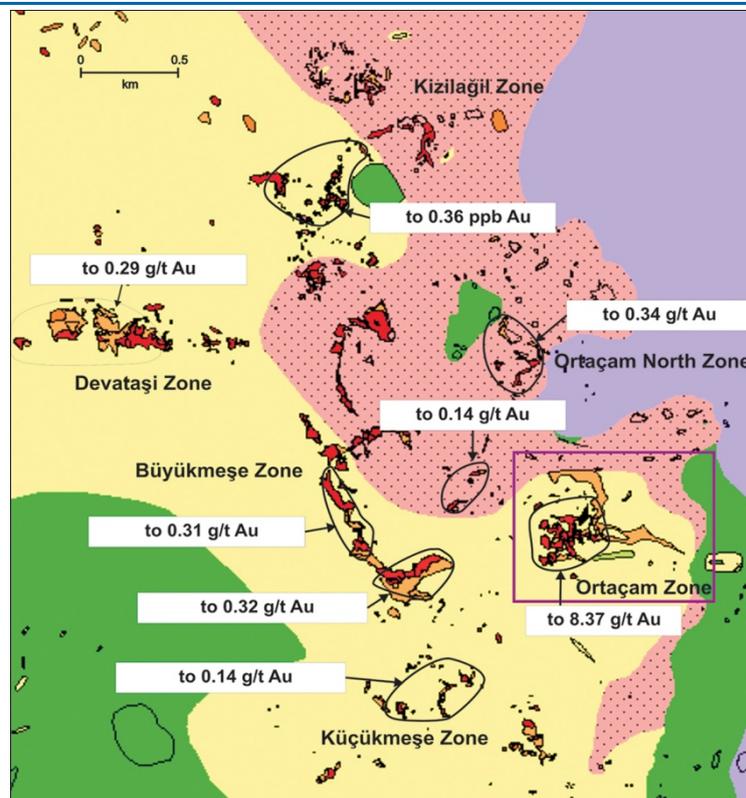
Öksüt

Stratex signed a joint-venture agreement over the Öksüt project with TSX-listed Centerra Gold on 13 August 2009. After spending an initial minimum commitment of US\$500,000, Centerra now has a right to a 50% interest in the project by funding US\$3m over three years (US\$2.29m spent to date). After three years, Centerra can increase its share to 70% by spending another US\$3m over the following two years.

Stratex has defined a resource of 147,814oz of oxide gold with an average grade of 1.21g/t Au in the Ortaçam Zone. However, there are many other targets at Öksüt, a number of which have been drilled. The recent drilling results have indicated the presence of low-grade oxide mineralisation to the west and south-west of the Ortaçam Zone. In places, this extends into the underlying sulphide zone and is accompanied by high copper content, suggesting a nearby copper-gold porphyry system.

Based on these results, we believe that Centerra is likely to commit further funds to Öksüt next year and we expect a decision to be announced in early Q1 2011.

Target areas at Öksüt



Source: Stratex International.

Hasançelebi

Stratex's longest JV partnership is with its largest shareholder, Teck Resources, formerly Teck Cominco. Teck continues with an option agreement over Hasançelebi project, under which it is funding US\$2m to acquire a 51% interest in the project, of which a minimum commitment of US\$500,000 is to be expended on exploration in the first year, including 2,000m of drilling. Teck has now met this minimum commitment by drilling 11 holes for a total of 2,524m and the results of the drill programme indicate the potential for a low-grade, high-tonnage, near-surface gold mineralisation over a distance of 1-2km. Like Centerra at Öksüt, we expect that Teck will want to continue drilling at Hasançelebi and again expect a decision to be announced in early Q1 2011.

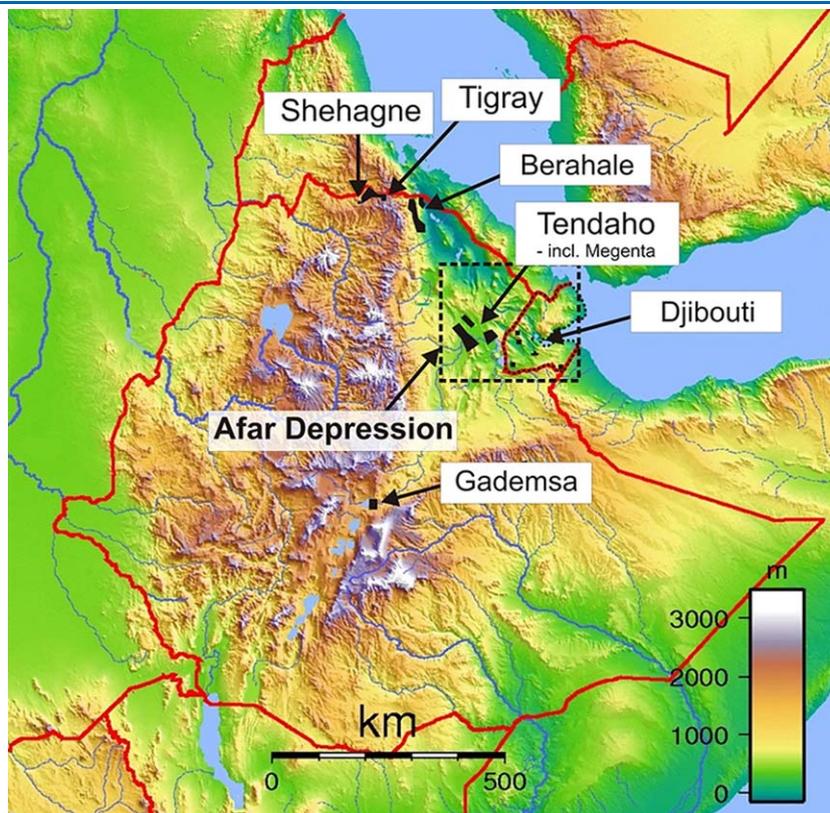
Muratdere

Stratex's newest JV is with Turkish company Aydeniz, through which Stratex aims to fast-track drilling at the Muratdere project. Under the terms of the joint venture agreement, Aydeniz can earn in to 55% of the Muratdere project by completing a first programme of 1,200m of diamond drilling within six months and then a second programme of 1,300m within the subsequent six months. To earn in to 75% of the Muratdere project, Aydeniz must pay Stratex US\$500,000 and complete a further 3,000m of diamond drilling within the subsequent twelve months.

As part of a previous exploration programme in 2007, the first three diamond drill holes drilled by Stratex in the eastern part of this porphyry system all intersected a typical porphyry-hosted quartz vein-type stockwork mineralisation, partially overprinted by faulting and associated silicification. The results from MDD-3, drilled approximately 500m east of MDD-1 & -2, revealed a more strongly mineralised part of the porphyry system. Drilling under the new JV arrangement has already started in the western part of the porphyry complex and we expect the first results from this copper-gold-molybdenum project to be announced in Q1 2011.

East Africa

Location of Stratex's Projects in East Africa



Source: Stratex International.

Stratex East Africa and the Thani Ashanti JV

Stratex has formed a subsidiary company called Stratex East Africa (SEA) which will hold all Stratex's Ethiopian and Djibouti assets, including the Afar Project, Shehagne and Berahale, and the Tigray and Gedemsa exclusive exploration licences (EEL), plus any new projects Stratex starts in the region.

In October, Stratex also signed a binding HOA over five licence blocks (the Tendaho EEL) in Ethiopia and six EELs in Djibouti (Stratex's 'Afar Project'), with Thani Ashanti, an AngloGold Ashanti joint venture company. Under the terms of the agreement, Thani Ashanti can earn 51% of the Afar Project by spending US\$3m on exploration and development over two years. Of this, Thani Ashanti must spend US\$1m in the first year, which includes a 3,000m drill programme at Megenta in Ethiopia. It can earn an additional 19% (for a total of 70%) in any one of the five licence blocks in Ethiopia and the six EELs in Djibouti by spending a total of US\$4m on that licence within four years from the start of the agreement. Also, once Thani Ashanti has spent at least US\$500k of its first-year commitment, it will acquire a 5% stake in Stratex East Africa (and thereby 5% of all Stratex's current East African interests).

Thani Ashanti is also investing US\$500,000 into Stratex via a private placement. The proceeds of this will be used to develop the other assets in Stratex East Africa outside the JV agreement. The JV agreement is major endorsement of the exploration team at Stratex and the prospectivity of the company's assets by the world's third-largest gold-producer.

Afar Project

In November 2009, Stratex announced its first discovery of significant new low-sulphidation gold mineralisation - the Megenta prospect in the Afar Depression region of Ethiopia. As the Afar Depression straddles the Ethiopian and Djibouti borders, Stratex has rapidly acquired further prospective licences, not just in Ethiopia, where they form the Tendaho licence package (including Megenta), but also across the border. The company's total land package in the Afar Depression is now 2,780km² and is the focus of the Thani Ashanti JV.

Afar Project: Megenta

Megenta, which straddles the Afar River, was Stratex's original discovery within the Tendaho EEL - three separate areas comprising five administratively discrete blocks that are covered by one licence. These now cover an area of 2,245km² and are valid for three years. Following initial reconnaissance work at Megenta, Stratex undertook a programme of detailed geological and structural mapping and channel sampling over an area 5,000m by 500m. Megenta is a low-sulphidation system and sampling focussed on silica-bearing structures, specifically on zones containing chalcedonic ribs and veinlets that potentially indicate the tops of veins which should widen with depth. Of the total 817 samples collected, only 20 (2.4%) returned non-detectable gold (<0.005g/t Au); 253 (31%) returned equal to or greater than 0.1g/t Au; and a further 54 (6.6%) returned equal to or greater than 0.5g/t Au. This programme of sampling enabled Stratex to identify six zones of interest at Megenta, which the company has named the Warthog, Baboon, Canal, Kingfisher, Hyena and Gazelle Zones.

Highlights from the recent channel sampling at the Canal Zone, which permits access to the deepest exposure in the Megenta prospect, some 20m below the surface, include 3.27g/t Au over 0.62m within silicified structures and 2.72g/t Au from samples of silicified sandstone. The Gazelle Zone also contains significant gold grades, including 2.29g/t Au over 2.46m. The Hyena Zone, to the south, appears to be a higher-grade zone, with values of up to 16.5g/t Au from a 0.5m-wide silica rib (vertical silica zone). This appears to be related to intersecting structures defining an area of maximum dilation, and hence fluid circulation, which is a common gold focus within epithermal systems. What is particularly exciting at Megenta is the discovery of high-level steam-heated sinter, which indicates that the entire system is likely to be intact (not eroded) and hence preserved below this sinter. A relatively common characteristic of such systems is the occurrence of multi-ounce bonanza gold grades at shallow depths and Stratex will be placing considerable emphasis on moving rapidly to drill-testing of those zones yielding anomalous gold grades at the surface.

Stratex is currently completing a major satellite (Landsat and Aster) and structural study of the entire Afar Depression, based on its knowledge of the controls on mineralisation at Megenta. This will identify and add further targets for follow-up mapping and channel sampling next year. Stratex is also currently defining drill targets as part of the Thani Ashanti agreement and plans to drill an initial 3,000m diamond/RC programme on Megenta, starting in February 2011.

Shehagne

In September 2009, Stratex partnered with PLUS-listed Sheba Exploration to provide a footprint for the company's initial move into Ethiopia. As well as taking a 5.6% stake in Sheba, Stratex committed to spending an initial £100,000, with an option for a further £250,000 to acquire 60% of the project and then a further option to move to 80% by taking the project to completion of feasibility. The agreement also included the exploration of new prospective licence areas in northern Ethiopia on a 70:30 basis.

Recent road-cut and channel-sample results, combined with work previously carried out by Sheba, has delineated an anomalous north-east trending zone of gold mineralisation covering an area approximately almost 1,500m long by 200m wide. Furthermore, due to the steeply incised topography, the vertical extent of mineralisation has been confirmed to a depth of at least 70m, indicating significant potential for its down-dip continuation. Mineralisation remains open to the north-east and south-west.

Stratex may begin drilling this project next year but this will depend on commitments elsewhere in Ethiopia, especially Megenta and AbiAdi (see below).

Tigray

As part of the joint-venture agreement with Sheba to explore northern Ethiopia on 70:30 basis, Stratex reviewed the historical exploration of the wider Tigray licence area using both Aster and Landsat EMT satellite imagery. Remote sensing, combined with a detailed desktop study, has identified several prospective areas within this 897km² EEL, which was granted to Stratex in March 2010.

Stratex considers that the potential exists for a wide variety of mineral deposits, such as VMS, mesothermal lode gold quartz veins, intrusion-hosted, skarn and epithermal-type gold deposits and is planning further mapping and channel sampling for next year.

Tigray: AbiAdi

In November 2010, Stratex signed a binding Heads of Terms agreement with privately owned LozBez for the AbiAdi-Gichke gold project (AbiAdi), located in the Tigray province in northern Ethiopia. LozBez has completed a preliminary programme of geological mapping and sampling of outcropping rocks and stream sediments across the central-eastern portion of the licence. This work has identified a prospective north-east-trending structure and an elongate granitic intrusion, both of which contain anomalous concentrations of gold over a distance of more than 5km, with historical non-ISO standard chip sampling assay grades up to 8.45g/t gold and 41.9g/t silver in separate samples. Local artisanal miners are exploiting both alluvial and bedrock mineralisation and are recovering coarse flakes of gold up to 2mm in size.

Stratex is currently undertaking an initial three month due-diligence period, during which it will spend US\$50k. After this Stratex can earn up to 75% of AbiAdi by funding exploration work up to US\$1m and the completion of 3,000m of diamond drilling over a 36-month period. At this time, Stratex and LozBez will form a joint-venture company, into which AbiAdi will be placed. Stratex may then earn an additional 10% of the JVC by spending US\$2m. Stratex could commission a feasibility study at any time after the JVC has been formed. If the decision to mine the project is taken, both companies must contribute to the project or be further diluted. If either party falls below 10%, its equity share will be converted into a 2% net smelter return royalty.

Stratex will start a detailed mapping and channel sampling programme at AbiAdi next year and we expect that the results will begin to be released in H1 2011.

Valuation

Sum-of-the-parts

We have reviewed and updated the valuation of Stratex on a sum-of-the-parts basis, using DCF valuations for Altintepe and Inlice, and the amount contributed by the JV partners for the other projects, plus cash and investments.

We have revised our valuations for Inlice and Altintepe using our current long-term gold price of US\$1,000/oz which we had not changed from US\$850/oz previously.

The new results from Öksüt add substantially to the potential for a major oxide gold deposit there and we will revise our valuation once Centerra commits more funding next year. Until then we have retained our current valuation. The same applies to Hasaңelebi and Teck. However, we have added to our valuation the new partnership with Aydeniz at Muratdere.

The Stratex East Africa portfolio has expanded and the definition of new epithermal gold occurrences in the Afar adds considerable value to those assets. Recently, Canaco (TSX-V: CAN) has acquired 468km² of ground to the west of Stratex for C\$4m plus 3.5m shares valued at C\$9.95m. In comparison, Stratex currently holds 2,122km² of ground in northern Ethiopia. The Patagonia region of southern Argentina hosts similar low-sulphidation gold deposits as Megenta. Here, Mariana Resources (AIM: MARL) has discovered the Las Calandrias deposit. Mariana currently has a market capitalisation of £78m, with no resource defined, although it has some good grade intersections. More-developed deposits are being valued far higher, with GoldCorp's (TSX: G) bid for Andean (TSX: AND) valuing gold in the ground at US\$375/oz, showing the potential for this style of gold deposit.

However, until Stratex drills these projects, we can only value them based on the price paid by Thani Ashanti for the Afar projects and the price Stratex paid for AbiAdi. As all the East Africa assets, except the investment in Sheba Exploration, are within the Stratex East Africa wrapper, we have attributed the 95% of that company's value to Stratex. This values SEA at US\$3.69m, which we believe still undervalues the assets.

Westhouse sum-of-the-parts valuation of Stratex

Component	Project	Value (£m)	Value per share (p)
NTF JV	Inlice (45 % of NPV 10%)	6.32	2.20
	Altintepe (45% of NPV 10%)	18.33	6.38
Centerra JV	Öksüt	1.95	0.68
Teck JV	Hasaңelebi	1.25	0.43
Aydeniz JV	Muratdere	0.54	0.19
Sheba	Shares and warrants	0.28	0.10
Stratex East Africa	(95% attributable to Stratex)	2.39	0.83
Cash		1.00	0.35
Total		32.05	11.16

Source: Westhouse Securities estimates.

Based on our sum-of-the-parts estimates, we currently value Stratex at 11.16p per share.

Recommendation

Stratex has had a good year, which has been better appreciated by the market lately. Developments at Öksüt and Hasaңelebi show continuing potential for a major discovery, while the Ethiopian interests, and especially the discovery of further epithermal gold prospects by Stratex in the Afar Depression, add weight to the huge potential of what is becoming a new gold district.

The cash position of the company is low, at just over £1m, but with funding from Thani Ashanti, NTF and potentially from Centerra and Teck, this should not be a problem. We are now entering an exciting period in the development of the company and expect steady news flow over the coming six months. Key developments which could transform the company are likely to include:

- Feasibility study at Inlice released February 2011.
- Resource update at Altintepe in Q1 2011.
- Confirmation of commitment by Centerra at Öksüt.
- Confirmation of commitment by Teck at Hasaңelebi.
- Results of drilling at Muratdere in Q1 2011.
- Drilling at Megenta to start February 2011.
- Detailed mapping and sampling at Tigray, including AbiAdi.

We believe that there is huge potential for Stratex and 2011 could be even better than this year. Based on our sum-of-the-parts, our target price is 11p per share, a 35% premium to the current 8.33p share price, and we maintain our **BUY** recommendation.

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BUY:	Forecast absolute total return in excess of +15%.
ACCUMULATE:	Forecast absolute total return of between +5% and +15%.
HOLD:	Forecast absolute total return of between -5% to +5%.
REDUCE:	Forecast absolute total return of between -15% and -5%.
SELL:	Forecast absolute total return of less than -15%.

Total return is defined as the movement in the share price over a 12-month period, and includes any dividends paid.

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Recommendation breakdown as at 30 September 2010	BUY	ACCUM.	HOLD	REDUCE	SELL
Overall coverage	76.5%	0.0%	19.1%	0.0%	4.4%
Companies to which Westhouse has supplied investment banking services	95.8%	0.0%	4.2%	0.0%	0.0%

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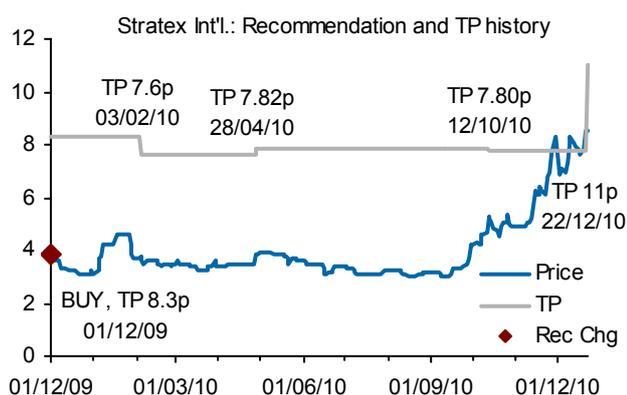
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Recommendation and target price history



Source: Bloomberg, Westhouse Securities estimates.

Valuation basis

In attributing a value to Stratex International we have completed a sum-of-the-parts valuation utilising NPV calculations to proposed projects and value attributed to projects by JV partners' contributions to the project.

Risks to our valuation

Exploration is speculative and the announcement of a resource does not indicate that the resource is economic. Other risks include currency risk and fluctuations in the gold price.

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