



52-wk Range: 3.00-10.25p Market Cap (M): £25.5
 12 month target: £0.10 EV (M): £22.9

Mining

Inlice Feasibility Study nearing completion

Summary

Stratex is an exploration and development company focussed on gold and base metal targets in Turkey, Ethiopia and Djibouti. This includes a combined total resource of 1.17 M oz Au and 3 Moz Ag from their Turkish Projects, Altıntepe, Inlice, Öksüt and Karaagac, of which Altıntepe and Inlice are at scoping and feasibility stages respectively.

Event

Stratex has announced several interesting news stories in the past few months which has prompted us to write an updated note on the Company. As well as expanding their field of operations into Ethiopia and Djibouti through joint venture agreements and diversifying their product base to include base metals, Stratex is progressing the scoping and feasibility studies on the near production assets of Altıntepe and Inlice respectively, and busily exploring the potential of the prospective Öksüt deposit. A brief summary and comment on each of these events can be found below.

Comment

We have significantly modified our model of the company. We have included the oxide and talus portions of Inlice and upgraded the recovery figure to 85% following positive news from Stratex on metallurgical testing. The start date of mining at Inlice has been pushed back to Q1 2012 and production at Altıntepe is provisionally scheduled for Q1 2013, although the feasibility study on Altıntepe has yet to be commissioned.

We have taken a conservative approach when estimating the mineable reserve for Inlice and Altıntepe by taking 100% of the measured and indicated resource and 50% of the inferred resource tonnage then multiplying this by 90% to simulate ore loss and dilution. This gives total reserve ounces of 70 koz for Inlice and 338 koz for Altıntepe. Mining rates used in the model are 460 ktpa and 1.4 Mtpa ore movement for Inlice and Altıntepe respectively and we have used operating parameters/costs from comparable projects such as Minera IRLs operating Corihuarmi mine in Peru as a guideline.

We have also added the Öksüt and Karaagac resource into the model but with no mining planned. To get an in-situ valuation of the exploration stage resources, we have given a 'fair value' of 3% of the in-situ resources at current spot gold price as per previous calculations. On this basis, Stratex's 230 koz of attributable gold from Öksüt and Karaagac would suggest a value of US\$8.99 M or approximately 2p per share. We have also incorporated our latest forecast currency and commodity assumptions as detailed in our Daily Monitor dated 11 January 2011.

Recommendation

We retain our Buy recommendation with a new target price of £0.10 which represents an 11.2% uplift on the current share price. Upside potential exists within the Öksüt deposit which could potentially contain upward of 200 koz with mineralisation remaining open, and in the potential of their East African prospects.



Key Metrics

Shares Outstanding (M): 286.8
 Current Price (GBP): 8.88p

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FYE Dec	2009	2010E	2011E	2012E	2013E
Revenue (£M):	0.0	0.0	0.0	8.3	20.9
EBITDA (£M):	-0.4	-1.5	-1.2	5.2	14.2
NPAT (inc significant items):	-0.3	-1.4	-1.3	3.7	11.4
EPS (GBP):	-0.1	-0.5	-0.5	1.3	3.8
Cash Flow/Share (GBP):	-0.2	-0.5	-0.4	1.8	4.4
Gold Price (US\$/oz):	973.7	1225.2	1464.8	1526.3	1300.0

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Expansion into Ethiopia

Stratex started expanding its activities into East Africa in September 2009 through a joint venture agreement with Sheba Exploration to earn-in to an initial 60% of the Shehagne project in northern Ethiopia. Since then, Stratex have acquired several other prospective holdings in the area including the Afar project in the Afar Depression which straddles the Ethiopia – Djibouti border (in Joint Venture with Thani Ashanti), the Tigray project in northern Ethiopia (in Joint Venture with Sheba Exploration), the AbiAdi project (in Joint Venture with LozBez, also in northern Ethiopia) and the 100% owned Gademsa and Berahale projects. The total land position for Stratex in East Africa is currently 4,798 km², including 3,554 km² over a significant number of rift-related epithermal gold targets in the Afar region. A map showing the locations of the Stratex's land holdings in East Africa is shown in Exhibit 1.

We believe that the geology of the Afar shows good potential for low-sulphidation epithermal gold systems to be discovered, with the potential for bulk tonnage, low grade at surface and higher grades (oz/t) at depth. Stratex regard the Afar region to be analogous to the rifting environment of Nevada, which hosts Allied Nevada's 2.4 MozHycroft Mine and the historic 1.66 Moz Sleeper Mine, but there is still a lot of work needed to prove that the Stratex land holding contains an economic resource. Exploration work conducted to date includes structural mapping and rock-chip sampling, which has returned positive results and indicates a potential for mineralisation. Drilling at the flagship Magenta prospect, within the Afar Project, is planned in 2011 and we look forward to seeing the results. The fact that Stratex have managed to sign-up so many JV's in the area indicates the prospectivity of the region and is an endorsement on the talent of Stratex's management and exploration team.

Completion of 2010 drilling programme at Öksüt

The aim of the 2010 exploration programme at Öksüt was to expand the preliminary resource of 148 koz of oxide gold through drilling of the Ortaçam zone and then to investigate the potential of other targets identified within the project area. Stratex and Joint Venture partner Centerra completed sixteen diamond drill holes totaling 3,190 m. The best intersections include 93.60 m at 5.61 g/t Au, 136.60 m at 0.69 g/t including 68.00 m at 0.58% Cu, and 80.30 m at 2.22 g/t Au including 12.00 m at 6.49 g/t Au. The results show potential for a high-grade deposit with a bulk-tonnage, low-grade gold envelope, and Stratex have commissioned an independent resource estimation for the project due for release this quarter. From the latest drilling results we wouldn't be surprised with an uplift in the resource of between 30 and 40%, equating to a resource of around 200 koz. This would establish the deposit as a definite development target for Stratex. Centerra has confirmed further expenditure for 2011 that will take it to the 51% earn-in level.

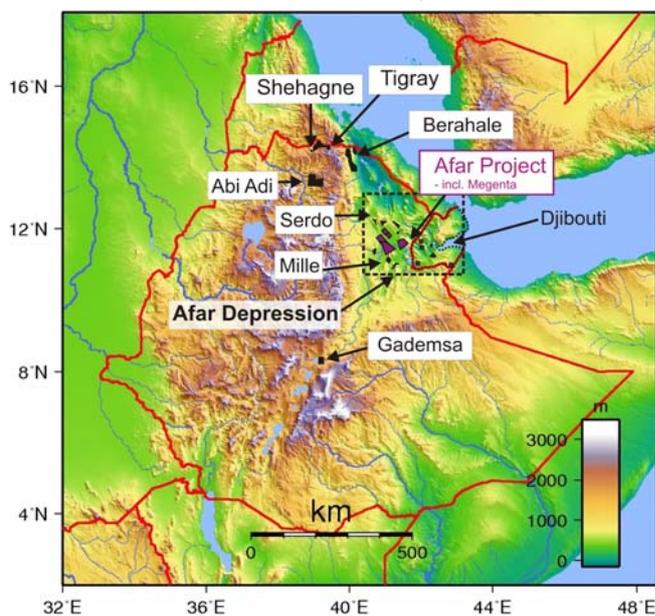
Progress on the Inlice and Altintepe Feasibility and Scoping studies

Inlice has been earmarked as the first deposit within Stratex's portfolio to be developed and mined, and first gold pour is targeted for Q1 2012. Joint Venture partner NTF Insaat Ticaret Limited ("NTF"), are currently funding the feasibility study to earn-in to 55% of the project. The feasibility study is progressing well and is due for completion by the end of Q1 2011. The study will include preliminary open pit planning, waste storage, plant design and related cost calculations which will help to ascertain the true value of the deposit. Although Stratex have successfully converted their Inlice exploration licence to an operating licence, mining cannot commence until the EIA is complete and the operating licence is converted to a mining permit. We do not expect any major permitting obstacles to arise but this still remains a risk in terms of delays to the commencement of mining. The EIA is due for completion in June 2011, at which point the permitting process will commence.

The Inlice deposit is relatively small (98 koz); however our model indicates that the deposit will be a cash earner for the company, which will then help fund the development of Stratex's larger development targets such as Altintepe in collaboration with partner NTF.

The Altintepe scoping study (primarily infill drilling) is also in progress, although at a slower pace. Resource drilling conducted during the 2010 field season has been assayed and will be incorporated into a new, internally estimated

Exhibit 1: Stratex's current land holdings in East Africa



Source: Stratex International plc

resource shortly. Mining at Altintepe is not due until early 2013 and will be dependent on the outcome of a full feasibility study that will only be commissioned following review of the updated resource data.

We consider the involvement of NTF, an earth-moving and construction company in Turkey, to be a great asset to the project. NTF bring significant production capability (albeit principally in open-cast coal mining and infrastructure projects) to the team and should assist in giving Stratex a running start through the permitting process and when mining starts. Exploration companies find it notoriously difficult to make the switch into mining and NTF will help fill this skill gap. NTF will also assist in getting relatively low cost capital construction and access to lower cost plant and machinery in Turkey. We therefore expect capital and operating expenditures to be optimised compared to other foreign mining companies in Turkey.

Research Disclosures

Peter Rose

Peter Rose has 20 years experience in equities as a resources analyst, most recently having spent 11 years with Deutsche Bank in Australia. Prior to this he spent three years with Prudential Bache and five years with James Capel. Peter's industry experience includes 16 years as a metallurgist, three years with De Beers in South Africa and eight years in the uranium industry, five of which were spent at the Ranger Uranium mine. Peter holds a BSc degree in Applied Mineral Science from Leeds University UK and a Bachelor of Commerce from the University of South Africa. Peter is also a member of the Institute of Mining & Metallurgy and a chartered engineer.

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Research disclosure as of 23 February 2011

Company Name	Disclosure
Stratex International (STI)	7

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Mining					
African Barrick Gold	ABG LN Equity	BUY	17.02.11	£5.88	£5.67
Angel Mining	ANGM LN Equity	BUY	03.03.10	£0.16	£0.05
Antofagasta	ANTO LN Equity	SELL	03.02.11	£9.88	£13.70
Atlantic Coal	ATC LN Equity	HOLD	17.02.11	£0.011	£0.008
Centamin Egypt	CEY LN Equity	BUY	02.02.11	£1.73	£1.28
Copper Development Corporation	CDC LN Equity	BUY	11.02.11	£0.82	£0.47
Discovery Metals	DME LN Equity	BUY	10.11.10	£1.00	£0.84
EMED Mining	EMED LN Equity	BUY	11.01.11	£0.50	£0.18
Exco Resources	EXS AU Equity	BUY	01.02.11	A\$0.88	A\$0.58
Hambledon Mining	HMB LN Equity	BUY	23.02.11	£0.095	£0.07
Highland Gold	HGM LN Equity	BUY	27.01.11	£1.84	£1.88
Hochschild Mining	HOC LN Equity	BUY	03.02.11	£6.00	£5.83
KEFI Minerals	KEFI LN Equity	Spec. BUY	06.10.09	NA	£0.07
Kryso Resources	KYS LN Equity	BUY	21.04.10	£0.22	£0.17
Lydian International	LYD CN Equity	BUY	05.07.10	C\$1.5	C\$2.62
Minera IRL	MIRL LN Equity	BUY	25.01.11	£1.23	£0.81
Randgold Resources	RRS LN Equity	BUY	16.02.11	£60.75	£51.65
Stratex International	STI LN Equity	BUY	23.02.11	£0.10	£0.09

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