

**Report Date**

 29<sup>th</sup> August 2006

**Stratex International Plc**
**8.63p**
**Highly Speculative Buy**

Broker: Hoodless Brennan

Nomad: HB Corporate

*Stratex International, the gold and base metal explorer with a strategic alliance with Canadian major, Teck Cominco has made good progress with its Turkish exploration program in the six months since joining AIM. Results from the initial drilling campaign at the Inlice gold project have confirmed good gold grades to mineable thicknesses at the project's Main Zone. The style of mineralisation and geological setting of Inlice make it comparable to some of the most significant gold operations in South America, including the Yanacocha mine, the largest gold-producing operation on the continent. Drilling is now underway at a second gold project, Karaagac whilst sampling continues at the company's other projects.*

£000s	Revenue	Gross Profit	Gross Margin	Operating Costs	LBT	Retained Loss	LPS (P)
24 <sup>th</sup> Aug '04 – 31 <sup>st</sup> Dec '05	-	-	-	257	247	247	0.33
6 months to 30 <sup>th</sup> Jun 2006	-	-	-	256	227	227	0.17

Source: Company accounts

**Key Data**

 AIM Ticker.....STI/L  
 Sector .....Mining  
 No. of Shares ..... 153.07m  
 Mkt. Cap. .... £13.2m  
 NAV (30/6/6) ..... £1.54m  
 Est Net Cash (29/8/6) £2.3m

The company is successfully meeting its exploration schedule as stated at admission. £1.175m (gross) was raised from new and existing shareholders in mid-August which will be used as working capital for ongoing exploration work. With Interim results for the six months to June recording losses of £227k the company has an estimated cash reserve of £2.3m at the present time.

 Recent Results ...Ints Jul'06  
 12 mth. High ..... 8.88p  
 12 mth. Low ..... 5.63p  
 NMS ..... 3,000  
 Screen Size ..... 25,000  
 Bid/Offer..... 8.25/ 9.00p  
 No. of Market Makers ..... 2  
 Spread..... 9.1%

Initial results from the Main Zone of the company's wholly-owned Inlice high-sulphidation gold-silver project have been extremely encouraging. Inlice (pronounced "Inleejer") is the principal target in the company's sizeable Konya District project. The recently completed hole 10 has returned the best grade to date, at 5.75 g/t over 32.2 m, a very high grade for high-sulphidation mineralisation. The company has now received assay results from drillhole 11, the first hole on the Western Extension to the Main Zone, situated some 200m northwest of drillhole 10. This hole maintained the trend of significant grade and thickness, assaying 3.92 g/t over 46.15 m and including 19 m at 6.97 g/t.

Geochemical sampling has returned positive results at the company's Doganbey prospect, the second of 19 targets to be evaluated within the company's Konya District project. A 1 km x 0.6 km gold anomaly has been defined so far with work continuing to delineate drill targets. HB has made a field visit to both the Inlice and Doganbey projects recently and was impressed by the potential scale of both prospects.

Drilling has begun at the company's Karaagac gold project where Stratex is earning a 100% interest from its strategic partner, Teck Cominco.

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We have compared the company to a group of international explorers at a similar stage of project development and consider the company well valued. Based on the results so far, the management's exploration abilities and the alliance with Teck Cominco we believe the company has strong prospects. Ongoing newsflow is expected from all four of the company's principal Turkish projects in the next 12 months and we expect good results will add further value. Given the company's pre-revenue position we rate the stock a **Highly Speculative Buy**.

## Company Projects

Stratex holds exploration licences over 36,837 hectares, with options over a further 15,601 hectares and has four key projects in Turkey; The Konya District play, which includes Inlice, the flagship project and Doganbey; Karaagac (Muratdagi); Dikmen and Muratdere. All four are located in central and western Turkey, a region in which a number of volcanic-associated gold and gold-copper deposits have been discovered during the past decade. Initial drill results from Inlice have been very encouraging and the company looks to be defining a new gold district. Developments are also expected at the three other sites in the next 12 months.

Background on Turkey, its mineral potential and mineralisation styles, foreign mining company activity and mining law is given in Appendix A on page 14.

Figure 1: Location of company projects



Source: Company

### Inlice & the Greater Konya area

Stratex's Konya properties are located in the Erenler Dagi (Dagi means mountains), Konya state in southern central Turkey. The project lies 35 km west of the state capital, Konya, which would form an ideal supply centre for project development. The altitude is typically between 1000 m and 2000 m with the volcanic centre covering an area of some 1,000 km<sup>2</sup>. Access to the licence areas is excellent with three highways traversing the mountain range from east to west, including the main Ankara to Antalya/Isparta road. Numerous minor roads link the mountain villages, whilst forestry tracks also cover the properties.

The company believes the Konya volcanic district represents a newly identified gold province and as discoverers of the area, Stratex have built a commanding land position comprising 20 exploration licences covering 32,832 hectares (328.32km<sup>2</sup>). The Konya volcanics are mainly andesites and dacites, which form flows, lava domes and dome associated breccias. Across the licence block the company has identified a further 19 prospective zones. These zones have been related to three intrusive (volcanic) centres that were responsible for the development of the Konya volcanic rocks that extend over an

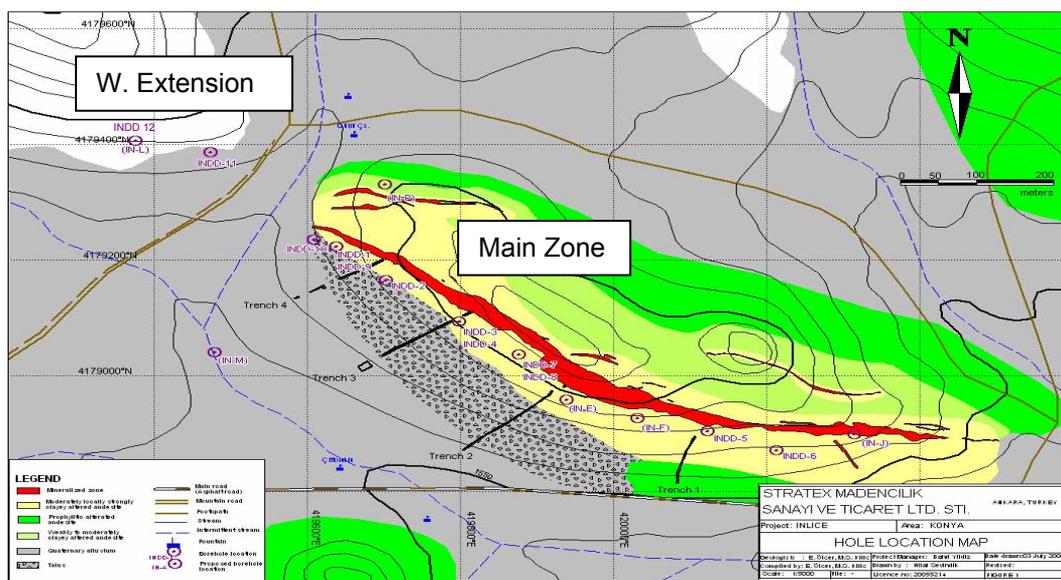
area of 50 km northwest-southeast and 15 to 20 km width. With the exception of Inlice, only limited sampling has been conducted to date by Stratex over the area. However, most targets tested have returned trace element signatures characteristic of the upper levels of high-sulphidation epithermal systems, with potential for the identification of high-sulphidation epithermal gold-silver deposits. (For further information on high-sulphidation epithermal deposits, please see Appendix A) Strong similarities in geological setting, styles of mineralisation, and multiplicity of potential prospects can be drawn between the Konya/Inlice occurrences and the multiple gold zones that comprise the Yanacocha gold deposit in northern Peru. Yanacocha is one of the largest known high-sulphidation gold deposits containing reserves of over 32 million oz (2005). These resources are hosted across multiple deposits with head grades of 0.8 to 1.6 g/t Au. The cut-off grade is 0.35 g/t Au. The mine is the largest producer of gold in South America.

## Inlice

Inlice was the discovery deposit for the Konya district play with gold mineralisation first identified by Bahri Yildiz (Stratex's General Manager in Turkey) in 2003. Prior to listing, the Inlice deposit was identified as the most prospective target and has been the focus for the most work during the initial exploration program. During our recent visit, HB was struck by the good relationship the company has built up with the local community centred around Inlice village, 5 km to the south of the project. Furthermore, the thriving magnesite (magnesium carbonate) mining operations in the area imply a familiarity amongst the local population with open cast mining.

The mineralised system at Inlice has now been traced over a strike length of more than 3,500 m across a zone width of 1,000 m. The style of mineralisation is typical of high-sulphidation epithermal gold-silver deposits with gold mineralisation occurring in steeply-dipping silicified 'ledges'. Five distinct zones are currently defined: the Main Zone, Main Zone Extension, Central, West and North Zones. Chip sampling over the northwestern half of the Main Zone averaged 2.12 g/t Au at surface over an area 400 m long by 10-30 m wide with a highest grade of 6.15 g/t Au over 2.5 m. Gold grades diminish to the southeast.

**Figure 2: Location of Drillholes and Talus Trenching at the Main Zone and Western Extension to the Main Zone at Inlice** (source: company)



## Drilling results.

The company's 1000 m scout drilling program began in late March. Table 1 gives the highlights from the drill program so far. Following the positive drill results from the Main Zone and in particular hole 10, the company moved on to the Western Extension to the Main Zone and is now on its second hole, bringing the total drilled to 12. The first West Extension hole, DDH-11 intersected 46.15 m of mineralisation grading 3.92 g/t. Detailed channel sampling was also conducted over zone. This returned 1.41 g/t over 155 m of strike with anomalous values over a further 200 m. Hence, the hole 11 assays imply a significant gold enrichment at depth in comparison to surface outcrop. The company has also completed a soil geochemical survey over a 2000 m x 650 m grid to the north and west of the current drilling and assays are awaited with interest.

**Table 1: Highlights from drilling so far on the Inlice Main Zone**

Drill hole	Location Zone	Intersection from (m)	Length (m)	Gold (g/t)	Details
1	Main zone	17.55	38.45	2.98	Includes 13.2 m at 5.92 g/t Au with 2.6 m at 9.06 g/t Au
		98.00	1.20	0.27	
		146.2	8.40	1.35	
2	Main Zone	32.55	23.45	0.76	
3*	Main Zone	26.60	23.40	1.19	Company consider gold was lost in poor recovery from weathered section.
4*	Main Zone	25.50	14.65	1.06	
9	Main Zone	23.00	3.00	4.16	
		61.00	3.05	2.80	
		81.00	17.00	1.73	
10	Main Zone	39.90	32.20	5.75	Includes 16.5 m at 8.53 g/t from 39.9 m and 12.8 g/t over 3 m from 54.7 m
11	Western Extension	11.00	46.15	3.92	Includes 37.7 m at 4.7 g/t from 18.3 m and 19 m at 6.97 g/t from 24.0 m

\*holes 3&4 drilled from the same location at differing dips.

Source: company

As the table shows, initial results are extremely encouraging with the key conclusions being:

- High grades for high-sulphidation mineralisation have been encountered at the western end of the Main Zone and on the West Extension to the Main Zone (highest grade 12.8 g/t over 3 m in DDH-10). Elsewhere grades have exceeded or been at least typical of high-sulphidation deposits. For comparison typical grades at Yanacocha are 0.8-1.6 g/t and at Fronteer Development Group's Agi Dagi project in Turkey the grade is 0.86-0.93 g/t.
- Results from DDH-10 and DDH-11 indicate thickening of gold mineralisation in a westerly direction across this part of the property. Mineralised zones of these thicknesses running between 3.92 g/t and 5.75 g/t are significant and, if continuous, would suggest good tonnage potential.
- Results from the 4 drillholes located along the eastern section of the Main Zone confirm the chip sampling results, in so much that gold grades appear to decrease to the east.

### **Talus trenching results – possible early oxide heap-leach operation.**

In parallel with the drilling programme, four trenches totalling 480 m in length have been excavated across the southern shoulder of the Main Zone (Figure 2) to investigate the gold potential of the scree-rich overburden. This exceeds 10 m thickness in places. Forty-three samples comprising silica boulders (21), soil (19), and boulders plus soil (3), were collected. All the overburden material proved to be gold enriched, with the boulders averaging 0.60 g/t gold and the soils 0.51 g/t gold. Obviously, this represents a very interesting potential addition to the main project - namely, a readily accessible resource which would be easy and cost effective to exploit. Further systematic sampling will help to define this potential opportunity better.

### **Inlice – The next step**

Whilst surface sampling initially proved the presence of gold in the Inlice area, the recent drill program over the Main Zone and Western Extension has proved the continuity of very good gold grades to mineable depths. Having walked the site, the scale of the potential deposit is very apparent, but much work must be completed before the project is shown to possess the scale and overall grade to attract interested parties such as strategic partner, Teck Cominco. Following this good set of initial results, Stratex has formulated a second phase exploration program and budget and expects to make progress toward delineating such a sizeable resource (2 Million ounces or more). Based on the results so far Inlice looks to have considerable potential and we believe further development is not only justified, but will add considerable value to the company.

Figure 3: Drilling at the Inlice Main Zone



Source: HB



Figure 4: Inlice – the future? The image actually shows a magnesite open pit operation on the highway between Inlice and Konya city, but it emphasise the region’s familiarity with open cast mining and good infrastructure.

Source: HB

### **Doganbey**

The Doganbey prospect lies 14km northwest of Inlice amongst wooded hills at the northern end of the Konya volcanics. Doganbey is the most advanced of the 19 additional prospects within the Konya District play. The prospect was identified by Bahri Yildiz and consultant to the company, Dr Stewart Redwood, in September 2005. ASTER satellite work has identified a 7.5 km<sup>2</sup> zone of mineral alteration around the volcanic centre, though this is likely to be even larger with the alteration extending under unaltered younger volcanics. At high levels, Doganbey displays high-sulphidation characteristics similar to Inlice, such as silica ledges. In addition, there appears to be evidence of a porphyry target, highlighted by enhanced molybdenum values and the presence of quartz vein stockwork mineralisation. Since discovery Stratex has been mapping the prospect and collecting rock chip samples. Based on the rock chip results so far a gold anomaly covering 1000 m x 600 m has been defined and remains open to the south.

Doganbey represents an early stage, prospective project and initial results certainly add confidence to the district wide nature of the Konya gold play. Stratex must now complete further sampling to define clear drill targets.

Figure 5: Looking north, towards the Doganbey prospect area (hills in middle distance)



Source: HB

### **Muratdagi – Gold Mineralisation at Karaagac**

The Muratdagi (Murat Mountains) licence block was Stratex's first project in Turkey and drilling is now underway. The licence block which covers an area of 121 km<sup>2</sup> is situated 32 km north-east of the town of Usak and 300 km southwest of Ankara (Figure 1). Stratex is currently earning a 100% interest in the licence block from its strategic partner, Teck Cominco by spending \$500,000 before October 2006. \$100,000 was expended prior to the company's IPO in January on Landsat studies, evaluation of the geological and geochemical database compiled by Teck Cominco and reconnaissance mapping. Work to this point has identified the priority target, **Karaagac**, with several secondary targets also defined.

### **Geology & Mineralisation**

The geology of Karaagac is interpreted as a Cretaceous ophiolite<sup>1</sup> sequence and limestones from the Tethyan Ocean thrust over Jurassic limestones and calcareous shists. More than 8km of strike length are exposed in the Karaagac area with the gently undulating thrust boundary exposed over an area of 3.5 km<sup>2</sup>. The mineralisation at Karaagac appears to represent a sediment-hosted gold system underlying a mineralised thrust zone. The thrust faults acted as conduits for the mineralising fluids and the serpentinite wallrocks of the thrusts were silicified by interaction with the fluids. The same fluids percolated into the underlying limestones and caused further silicification to form jasperoids within these sedimentary rocks. Sediment-hosted gold systems are well known in Nevada, USA, but are

<sup>1</sup> Ophiolite – Oceanic crustal and upper mantle material that has been pushed up on to a continent when slivers of the seafloor are caught between converging tectonic plates.

less recognised elsewhere. (For further information on low-sulphidation epithermal deposits, please see Appendix A)

The exposed mineralisation is at least 2-5 m wide in the altered ophiolite (listwaenite) and limestone at the contact and appears to extend to several tens of metres depth in the limestone below the thrust. To date Stratex has collected 49 reconnaissance samples from the silicified limestone and serpentinite. 11 of these 49 samples returned gold values greater than 1g/t and 30 gave values over 0.1 g/t with values in the range 0.5-2 g/t commonly reported.

Higher grade gold (up to 9.7 g/t) appears to be associated with steep west-northwest-striking fractures beneath the thrust, which Stratex identified during its recent mapping. These fractures may have acted as additional fluid pathways.

Based on the work to date, potential has been established at Karaagac for a low-medium grade shallow gold deposit which could be developed as an open pit. The low angle of the thrust down dip from the mineralised outcrop can be readily tested by trenching and shallow drilling, which is now underway. If the grades recorded so far are maintained over the entire thrust block, Karaagac could be a high-tonnage target, but much work is required to prove this. We look forward to the drill assay results over the coming months.

Additional evidence for this style of deposit in this region of Turkey is provided by the Tavsan deposit, currently being evaluated by TSX-listed Odyssey Resources limited (Odyssey). This prospect is also optioned from Teck Cominco, with Odyssey having to spend \$1.3m over 4 years to earn 100%, subject to a 2% NSR. Teck Cominco has various earn-in options. Odyssey describe Tavsan as a typical Nevada-style epithermal gold deposit with the gold found within a shallow dipping thrust fault separating an ophiolite sequence from underlying limestones. Gold-bearing jasperoid is exposed over a strike length exceeding 3 km with the mineralised slab varying in thickness up to 20m with grades typically between 1 g/t and 6 g/t. Previous drilling of the Main Zone by TC in 1997 led to a historic resource of 11.61Mt at 1.01 g/t for 377,000 oz (considered equivalent to inferred status). Odyssey began drilling over the remainder of the deposit in March.

Additional potential in the Stratex licence block may be found through the TC database. One area around 5km east of Karaagac has yet to be evaluated by Stratex, but returned elevated gold, silver and copper readings during TC's rock chip sampling program.

### **Dikmen – Copper–Molybdenum Porphyry Mineralisation**

The Dikmen licence block (approximately 14 km<sup>2</sup>) is one of three prospective licence blocks in the Miocene volcanic terrain of western Turkey held by Stratex under option from Teck Cominco. The block lies 65 km east of Cannakkale and 13 km southwest of Biga (Figure 1). As at Inlice, access is excellent with the property transected by a highway, minor roads and tracks. Following a review of geological and geochemical databases provided for each licence block, Stratex identified the porphyry-hosted copper-gold-molybdenum occurrence as a key target for further evaluation.

Previous exploration work identified a porphyry-granite complex that extends for a distance of at least 4,400 m and ranges in width from 50 m to 1,000 m. Disseminated, stockwork, and veinlet-style mineralization has been identified intermittently along 3,000 m of the porphyry-granite complex, with the largest area of such mineralization estimated by the company to be 800 m x 200 m. Anomalous values of gold, copper, and molybdenum have been recorded in stream sediments and soils across the porphyry-granite complex.

One diamond drillhole was drilled on the property in 1990 as part of a Japanese-Turkish joint project. MJTC-15 hole was drilled on an area of disseminated pyrite mineralization near the south-west limit of the porphyry-granite system where it intersected altered rock and quartz veins containing molybdenite and pyrite over almost the full length (150 m) of what appears to have been a vertical hole.

The company believes this prospect has the potential to be a substantial molybdenum-copper-gold porphyry occurrence that is exposed at surface and that could readily be exploited by open-pit mining methods.

Geological mapping and sampling of the prospect to provide focus for an early campaign of exploratory drilling is now well advanced. A programme of ten steeply inclined diamond drillholes is planned in the remainder of 2006 and this will provide core to facilitate evaluation of the grade and variation with depth of the mineralized material.

### **Muratdere – Copper-gold-molybdenum porphyry mineralisation**

The Muratdere property comprises two licences, held under option by Stratex, covering another substantial porphyry copper-gold-molybdenum system in west Turkey. Mineralisation was first identified by the Turkish government's Mineral Research and Exploration Institute (MTA) following work undertaken in the period 1999-2001. Systematic soil sampling over the property yielded up to 1.1 g/t gold, 0.145% copper, and 0.012% molybdenum, and rock samples gave maximum values of 1.2 g/t gold, greater than 1% copper and 0.1% molybdenum.

MTA drilled two holes, on what Stratex identifies as the edge of the main mineralized part of the porphyry body. The first hole MDS-1 intersected faulted sedimentary rocks on the margin of the porphyry body. However, MDS-2 gave an intersection of 0.2% copper and 0.02% molybdenum over 194 metres, The upper 10 metres of the hole is reported to have averaged 0.5% copper. Stratex has reassayed the MTA core and is able to confirm these grades.

Geological mapping by Stratex has demonstrated that the porphyry system extends east-west for a distance of at least 4,000 m and has a width of approximately 500 m. Mineralisation consists of narrow sulphide-bearing quartz veins and disseminated sulphide minerals in the rock. Collection of 22 samples by Stratex across the eastern end of the porphyry wherever rocks were exposed yielded 12 samples with copper exceeding 0.05% and maximum values of 0.63% and 0.46% in samples containing visible copper oxides. Gold was anomalous, with values up to 0.16 g/t and molybdenum to 0.04%.

Stratex believes that Muratdere represents a significant porphyry copper-gold-molybdenum prospect that can be rapidly and cost-effectively evaluated by a short programme of geological mapping and sampling, leading to exploration drilling should the initial exploratory campaign confirm its potential. Like Dikmen, the prospect would likely prove to be an open-pittable resource with commensurate low-capital investment required to take it to production.

### **Teck Cominco – The Strategic Alliance with Stratex**

Stratex has a 'Strategic Alliance' in place with major Canadian mining and exploration company Teck Cominco Limited, which holds a 14.5% stake in the company. Teck Cominco (TC) is a world leader in the production of zinc and metallurgical coal and is also a

significant producer of copper, gold, and other metals. TC's assets are valued around C\$8.8billion (£4.25billion). The agreement with Stratex covers activities in Europe, the Middle East, and Africa, with certain exceptions.

We believe Stratex has certainly got into bed with the right player. Partnering is a fundamental component of TC's business plan and the company aims to be the partner of choice for junior companies. TC programs cover joint venturing, technical support and equity financings and at present TC is a shareholder in over 50 junior mining companies. Furthermore, TC is the ideal partner in Turkey having been actively exploring in the country since 1988. With over 300 licences, concentrated on gold, gold-copper and zinc, it has one of the largest mineral licence portfolios in Turkey. Of the company's Turkish properties, 11 are being explored by partner firms.

The key conditions in the Alliance are listed below, but essentially TC has the right to earn significant stakes in projects developed by Stratex. Naturally, this reduces the potential upside for Stratex, should it define a project of such size to be of interest to TC. However, we believe it dramatically reduces the financial and management burden on the company and makes development of significant deposits into producing mines more realistic. Furthermore it allows the board to focus on its key skills of exploration and discovery whilst being supported by the technical expertise and facilities of a major. Of course, the company remains free to develop, JV or sell projects not of interest to TC.

Key points in the agreement are:

- All potential prospects identified by either party are formally screened by the Teck Cominco - Stratex Joint Advisory Committee and either approved or rejected. The Advisory Committee comprising David Hall and Bob Foster, two of TC's senior managers, and independent internationally acknowledged consulting geologist, Dr Richard Sillitoe.
- Stratex can achieve a 100% interest in a property introduced by TC on the basis of negotiated exploration expenditure by Stratex. Subject to agreed further expenditure by TC, TC can earn back in to a project to a level of 60%.
- TC has the right to earn in up to 51% of Stratex's interest in any approved property introduced by Stratex by funding two times the exploration expenditure incurred by Stratex.
- TC has the right to select up to four such opportunities for earn back or earn in prior to termination of the Strategic Alliance Agreement on 31 December 2007.
- The option to earn in would be triggered by Stratex incurring US\$2.5 million expenditure on any one property and will be subject to TC subsequently funding two times the expenditure incurred by Stratex.

## **Management & Key Staff**

Stratex's management team have a proven track record in the exploration and discovery sector of the minerals industry.

David Hall (46), Executive Chairman: David has 24 years of experience in the exploration sector. He has worked on and assessed exploration projects and mines in over 40 countries including Turkey where he worked for over four years. Previous roles include Chief Geologist for Minorco (Central and Eastern Europe, Central Asia and Middle East) and Exploration Manager for AngloGold (South America). He has been responsible for numerous new discoveries in his career including the Gumushane porphyry gold deposit in north eastern Turkey, and a significant sediment gold hosted system in Iran. David is

currently President & CEO of Goldquest Mining Corp (TSX-V), Non-exec Chairman of Horizonte Minerals Plc and a Non-exec Director of Minmet (both AIM).

Dr. Robert Foster (56), Chief Executive Officer: Bob has 32 years of experience as a professional economic geologist in exploration, mining, and applied academic posts. He is an internationally acknowledged expert on gold metallogenesis and exploration. As a founding member of the management team of Pan-African Mining Pvt Ltd he was a key player in the development of the open pit Ayrshire gold mine in Zimbabwe between 1991 and 1996. He also directed a major gold exploration programme for associated company Pan-Reef Mining in Zimbabwe during 1994-1996. As a Fellow of the IMMM and Chartered Engineer, Bob is recognized as a Competent Person by most regulatory authorities.

Perry Ashwood (58), Chief Financial Officer: FCA, Perry Ashwood qualified as a Chartered Accountant in 1971, training with Spain Brothers & Co. and KPMG. Shortly after qualifying he spent 5 years with British Oxygen then with Xerox where he held operational roles with involvement in Turkey, Egypt, India and Russia. He became an independent consultant in 2000. Since then he has undertaken various roles with small to medium sized businesses including start-ups.

Bahri Yildiz (47), General Manager, Turkey: Bahri has 26 years of experience in mineral exploration and mining geology throughout Turkey. He commenced his career in 1980 with the government's General Directorate of Mineral Research and Exploration (MTA) where he managed a wide range of projects. This was followed by three years as Exploration Manager with Turkish company Yurtaşlar Maden before he joined the Turkish subsidiary of major Canadian mining company, Inco Ltd in 1992, working as a Senior Geologist and then as Exploration Manager. Bahri discovered the Inlice deposit in 2003.

## **Financials**

In July the company published its interim results to the 30th June. Adding net funds from the January AIM admission (£1.54m) to the existing balance gave the company a fund of £1.72m at the start of the year. In the first half £163,275 was spent on project acquisition and development. Overall, losses were £227,027 (0.17p/share) against £115,420 (0.15p/share) for the same period last year, prior to the start of drilling. In all, the company's cash position at the end of the period stood at £1.34m. A further £1.175m (gross) was raised from new and existing shareholders in August, so the company has a reasonable cash reserve to work from. As with all junior exploration companies, Stratex will not generate income until production is achieved or projects are sold or joint ventured, so further funding will be required. The timing and scale of subsequent fund raisings will naturally relate to the second phase exploration programs drawn up by the company.

We have not produced financial forecasts for Stratex at this early stage of exploration.

## **Valuation**

Based on its project portfolio, management team and Strategic Alliance, Stratex was given a pre-IPO valuation of £5m with £1.54m net raised at the initial fundraising. Since listing in January, the share price has been well supported in the market, thanks to the positive results from Inlice and Doganbey and acquisitions of two additional licences.

Financial valuation of mineral exploration companies will always be a point of discussion prior to value being crystallised in the form of resources or asset sales. Clearly some projects are far more prospective than others, but with only limited data available, relative

prospectivity of projects can be difficult to assess. Obviously the latest drill results from Inlice add considerable confidence and momentum to the project and we would expect additional assays of similar grades to add further value, prior to a resource definition. For reference we have compared Stratex to a group of peer companies considered to be at an approximately equivalent stage of project development to Stratex.

None of these companies has yet published resource estimates acceptable under international reporting standards, such as JORC.

- Ariana Resources has a young management team exploring for gold in western Turkey. The company lags behind Stratex in not having released drilling results, but has just started drilling at Kiziltepe. There has been some previous drilling at Kiziltepe by previous explorers.
- Eurasia Minerals is listed on the Toronto Venture Exchange with exploration projects in Turkey, Serbia and Kyrgyzstan. The company's Turkish projects range from grass roots to drilled targets and include the Sistorta high-sulphidation gold and porphyry target in North Turkey. This has obvious comparison with Stratex's Konya district play. The company entered a regional exploration joint venture covering Turkey with major, Barrick Gold Corp in September 2004. Barrick terminated the JV in April this year.
- Horizonte Minerals is a recently listed AIM company working to a similar business model as Stratex on gold and base metal exploration projects in Brazil and Peru.
- Persian Gold is also listed on AIM and is exploring for gold in Iran. The company has two project areas; Takestan, in the north where the company is exploring for multimillion ounce, Yanacocha-style deposits and the Chah-e-Zard gold project in central Iran, where the company has the option to earn 70% stake. The company is also yet to start drilling and must be seen to have much higher sovereign risk than Stratex in the current political climate.
- Triple Plate Junction is currently drilling the Pu Sam Cap gold deposit in Vietnam and the gold and gold-copper Crater Mountain project in Papua New Guinea.
- Glencar Mining has recorded some bonanza grade intersections at its Komana shear zone gold project in Mali and has signed a Gold Fields' subsidiary into a funding agreement on three other Malian exploration properties.

As Table 2 below shows, based on estimated enterprise values these "resourceless" companies selected fall into three broad groups (sub £6m, £6-10m and £10m+) with Stratex representing the middle group. In direct comparison to Glencar Mining and Persian Gold, Stratex looks well priced, though Glencar enjoyed a strong run up in price between December and May thanks to strong drill results and interest from Gold Fields. Perhaps, the key comparator is Persian Gold. Its exploration for multimillion ounce deposits in the altered volcanics of Iran makes it broadly similar to Stratex. Despite, its lack of drilling, Persian Gold's enterprise value is more than double that of Stratex, following a rapid ascent triggered by positive sampling results from the chah-e-Zard project. Prior to the rise, the companies' enterprise values were approximately equal. Undoubtedly in the current political climate, the sovereign risk associated with Persian Gold must be viewed as considerably higher than Stratex.

Although we feel that due to the current status of the project a target price cannot be realistically set for Stratex at present, it is worth highlighting the potential value of the most advanced project, Inlice. If the company does define a 2Moz target resource at the project and assuming a £20/oz in situ value for gold resources implies a value of £40m or 26p/share. We expect resource definition with ongoing drilling.

Although the Konya district play, and in particular Inlice remains the company's flagship project, there are currently three further projects of merit with news expected on all fronts in the next twelve months. In the meantime we feel comfortable with the company's current value based on the prospectively of the assets, the exploration experience of the Board and Turkish staff, the strategic alliance with TC and comparison with other companies in the market. We expect further positive exploration results to add further value.

### **Recommendation**

Stratex has made good progress with its exploration program since listing on the market in January. First stage drill results from the Main Zone at the Inlice high-sulphidation gold project have been encouraging and we await the remaining drill and surface results with interest. Initial drill results are also awaited from the Karaagac gold project on the Muratdagi licence. The company has sufficient cash to complete its program as set out in the admission document, but may seek further funding should it wish to accelerate its strategy. The company has had good support in the market since listing and is currently valued at £13.2m. Based on the results so far and comparisons to other companies in the market we recommend the stock and look forward to forthcoming developments on the projects.

***Previous note: 3<sup>rd</sup> August 2006. Highly Speculative Buy.***

**Table 2: "Resourceless" gold and base metal explorers**

Company (EPIC)	Market	Market Cap <sup>1</sup> (£m)	Estimated Cash position (£m)	EV (£m)	Details & recent news
Ariana Resources (AAU)	AIM	6.7	2.0	4.7	3,700m drilling program now underway at the Kiziltepe (Sindirgi) project, Western Turkey.
Eurasia Minerals (EMX)	TSX	7.1	1.5	5.6	Barrick terminated JV in Turkey.
Horizonte (HZM)	AIM	7.67	2.3	5.4	Announced Letter of Intent with Troy Resources' subsidiary to develop the Gois Velho gold exploration project in Brazil.
Triple Plate Junction (TPJ)	AIM	15.1	9.8	5.3	Drilling underway at Pu Sam Cap, Vietnam.
Persian Gold (PNG)	AIM	18.6	0.3	18.3	Surface sampling has defined a 750 m by 1250 m anomalous gold zone at Chah-e-Zard.
Glencar Mining (GEX)	AIM	25.7	0.4	25.3	High grade vein gold potential defined by drilling at Komana West. Goldfields' JVing on 3 other projects. Positive drill results from the Bokoro concession.
<i>Stratex (STI)</i>	<i>AIM</i>	<i>13.2</i>	<i>2.3</i>	<i>8.9</i>	<i>Drilling on going at Inlice and underway at Karagaac.</i>

<sup>1</sup>As at the 24th August 2006. £1: C\$2.1

Source: HB

## Appendix A – Additional Information

### Turkey

Turkey straddles the continents of Europe and Asia and is approximately one and half times the size of France (780,000 km<sup>2</sup>) with a population of almost 70 million. The country is 99% Muslim, but is a secular state that guarantees complete freedom of worship to non-Muslims. Turkey is a democratic, multiparty state with the country's parliament, The Grand National Assembly, elected by popular vote. A government is formed by the Council of Ministers, headed by the Prime Minister.

Following the financial crisis in 2001, a recovery programme was agreed with the IMF in 2002. Since then, the country's economy has enjoyed good growth, with 5% growth recorded in 2005 and inflation at a 30-year low of 7.7%. 2005 GDP was US\$552 billion. The country became an official EU candidate country in 1999 and EU membership talks were launched in October 2005. Accession negotiations are expected to take around 10 years.

The Southeast Anatolia Project (GAP), a multi-purpose, integrated development of 22 dams, 19 hydroelectric power plants and irrigation facilities over 1.7m hectares of land around the Firat (Euphrates) and Dicle (Tigris) rivers is expected to have a major positive

impact on the country's economy. The total cost of the project is estimated at \$32billion with annual energy production reaching 27billion kWh.

### Turkish Geology & Mineral Deposits

Metal mining has been taking place in Turkey for over 9,000 years with copper, gold, iron, lead, mercury, silver and tin all produced. Turkey is also a significant industrial minerals producer. Around 2.5% of the world's industrial mineral resources are thought to lie in Turkey, dominated by borax, bentonite and perlite.

One of the key events in the development of significant precious and base metal deposits in Turkey has been the Alpine Orogeny (mountain building episode). Turkey lies at the eastern end of the Alpine orogenic belt, which developed as the African and European tectonic plates converged, closing the ancient Tethys Ocean and driving the African continent towards Europe. This event led to widespread metamorphism and magmatism in the region producing the associated mineralisation in the Tethyan Eurasian metallogenic belt.

Gold and copper mineralization in central and western Turkey is associated with the former centres of volcanic activity, where up-welling aqueous fluids, driven by the heat of the volcanic activity, precipitated gold, copper, and other metals before erupting at the surface as either hot springs or volcanic fumaroles. Under geologically favourable conditions, this volcanic-driven fluid activity generated epithermal gold-silver deposits that extended downwards to depths of up to 1,000 metres beneath the ancient land surface. In some cases the mineralized systems were rooted in hot intrusive granitic or dioritic (porphyry) bodies that today have the potential to form large-tonnage, low-grade porphyry copper-gold deposits.

Table 3: Significant Base metal and Silver deposits in Turkey

Name	Grade	Million tonnes (Mined & Remaining)
<i>Copper</i>		
Ergani-Madenkoy	1.34-5.5% copper (+gold/silver/cobalt)	56.0+
Murgul	1.16% copper (+gold/silver)	99.0+
Cayeli	4.3% copper, 7% zinc (+lead/gold/silver)	18.0+
Siirt-Sirvan	2.1% copper, 1% zinc (+gold/silver)	25.0+
Kure-Asikoy	1.69% copper (+gold/silver/cobalt)	15.2+
Kure-Bakibaba	3.59% copper (+gold/silver/cobalt)	4.4+
Lahanos	3.6% copper, 2.4% zinc (+gold/silver)	2.3+
Cerattepe	5.1% copper (+gold/silver)	2.8+
<i>Zinc/Lead/Silver</i>		
Balya	5.2% zinc, 2.8% lead, 58 g/t silver	13.5+
Gumuskoj	1.5% zinc, 1.0% lead, 190 g/t silver	25.0+
Koprubasi	6.7% zinc, 4.7% lead, 0.8% copper (+gold/silver)	9.0+
Handeresi	4.1-6.6% lead, 2.2-5.5% zinc	3.5+
Dursunbey	4.0% zinc, 4.0% lead, 0.25% copper (+ silver)	4.0+
Yenice	2.0% zinc, 3.0% lead, 0.5-1.0% copper (+ silver)	11.4+
Arapucan	20% lead+zinc+copper (+silver)	1.3+
Harsit	4.6-6.3% lead (+zinc, silver)	2.4+

Source: [www.blogcu.com](http://www.blogcu.com)

This model is well recognised in central and western Turkey where deep porphyry systems are represented by the Kisladag gold deposit (7.19 million ounces) and associated low sulphidation gold mineralisation is present at Efemcukru (1.6 million ounces). The general setting of the volcanic activity and the types of epithermal and porphyry gold and copper deposits currently being discovered in the region are closely analogous to the important intrusion-related precious and base-metal deposits of the Andean metallogenic belt of South America.

Despite, still being relatively underexplored, more than 30Moz of gold reserves and resources have been discovered in Turkey in the past 15 years (Source: Teck cominco)

Table 4: Significant Gold deposits in Turkey

Deposit	Company	Reserve (Moz)	Resource (Moz)	Development Stage	Min Type
Kisladag	Eldorado Gold Corp	5.06	6.05	Production	High-sulphidation
Copler	Anatolia Minerals	1.36	1.79	Feasibility study filed	High-sulphidation
Efemcukuru	Eldorado Gold Corp	0.78	0.85	Permitting	Low-sulphidation
Ovacik	Kosa Davetiye	0.20	0.13	Production	Low-sulphidation
Agi Dagi	Fronteer Dev Group/ Teck Cominco	-	1.3	Exploration	High-sulphidation

Source: Ambrian/HB

## High- and Low-sulphidation Gold Deposits

Epithermal gold deposits (shallow level deposits) can be divided into two groups, high and low-sulphidation, based on the chemistry of the mineral-bearing fluid and nature of emplacement. The resulting deposits have differing characteristics. Stratex is exploring for high-sulphidation deposits throughout its Konya district play and for low-sulphidation at Murat Dagi (Karaagac).

High-sulphidation epithermal (HS) gold fluids are oxidised and have a low pH (acidic). They are composed primarily of magmatic waters<sup>2</sup>, with minor meteoric<sup>3</sup> or groundwater input. Gold is carried in solution and is deposited when the hot acidic fluids approach the surface and become cooled and neutralised as they interact with the host rocks. HS deposits are characterised by zoned alteration in near volcanic caldera settings and are interpreted to lie above copper-gold porphyry deposits. In general, the mineralisation overprints advanced argillic alteration such as characteristic vuggy silica and is limited typically to sulphide veins, open-space fill and disseminations, sometimes in phreatic breccias. HS deposits are generally wide zones (<500 m) and show much dissemination and distribution of mineralisation into the adjacent wallrocks. Gold mineralisation within HS deposits is generally found in association with silver and copper; trace elements usually include mercury, tellurium and antimony.

Low-sulphidation epithermal (LS) gold fluids are reduced and have a near neutral pH. They are composed of a mixture of meteoric and magmatic waters. Gold is carried in solution and is deposited when the hot fluids approach the surface and boil. LS deposits are generally narrow zones (<50 m). Gold mineralisation within LS deposits is generally found in association with silver and minor base metals; trace elements usually include arsenic, antimony and mercury.

<sup>2</sup> Magmatic water: water arising from an underground source of magma.

<sup>3</sup> Meteoric water: water which penetrates rocks from above, e.g. rain.

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## Foreign companies operating in Turkey

Turkey's mineral potential is now well recognised internationally and the development of projects such as the Cayeli copper mine (Inmet) and Kisladag gold mine (Eldorado Gold Corp) have helped to prove the case for operating in Turkey. Historically, the industry has been dominated by small-medium domestic private operators, but this situation has certainly been changing as both major and junior international companies move in to the country. Table 5 below lists foreign companies in addition to Stratex that are active in Turkey.

### Turkish Mining Law

Turkey's 1985 mining law was amended in June 2004 to provide a more investor-friendly environment for both local and foreign participants. Regulation regarding implementation of the new law was enacted in February 2005. Mining activities and licensing is regulated by the General Directorate of Mining Affairs (GDMA), a unit of the Ministry of Natural Resources.

The application process for exploration licences appears efficient, with authorisation given on a first come, first served basis. Exploration licences are issued for three years, but may be extended for some minerals for an additional two years. An exploration report is to be submitted at the end of the 3 year period. An application must be made for an operation licence before the end of the exploration licence period. An operation permit is also required along with an operation licence before production commences.

There is a government royalty policy in place for all minerals with the rate determined by the value of the raw material at the extraction point. At present virtually all metals, including gold, other precious and base metals incur a 2% royalty.

Table 5: Foreign Mining & Exploration companies operating in Turkey

Company	Market	Project
Aldridge Minerals	TSX	Farming in to Anatolia's Yenipazar polymetallic project and two Au-Ag epithermal projects from BHP Billiton
Anatolia Minerals	TSX	Copler gold project (1.36 Moz reserve, 1.79 Moz resources) and four JVs with Rio Tinto.
Eldorado Gold Corp	TSX	Kisladag gold mine (5.06 Moz reserves). First gold poured in May 2006, ramping production up to 240k oz/year. Efemcukuru project (0.78 Moz reserves). PFS completed, ongoing assessment of ore processing and licence permitting.
Eurasian Minerals	TSX	Exploration of two gold projects and a copper porphyry project. Also properties in Serbia and Kyrgyzstan. Barrick Gold Corp recently terminated JV with Eurasian in Turkey.
European Nickel	AIM	Developing the Caldag heap-leach nickel operation with BHP Billiton.
Fronteer Development Group	TSX	JV with Teck Cominco on the Agi Dagi Au-Ag project (1.3 Moz gold equivalent resource). Other operations in Mexico and Canada
Inmet Mining Corp	TSX	Cayeli Cu-Zn mine. In production since 1994, 2005 production 26,500t Cu & 42,300t Zn. Reserves: 11.6Mt at 3.7% Cu, 5.9% Zn, 0.6g/t Au and 49 g/t Ag.
Newmont Mining	NYSE	Exploration for high-sulphidation gold deposits after the sale of the Ovacik gold mine to Turkish company, Kosa Davetiye
Odyssey Resources	TSX	Exploring the Tavsan Au-Ag-Cu deposit under agreement with Teck Cominco. Other projects in Morocco.
Teck Comico	TSX	300 exploration licences in Turkey covering Au, Cu-Au and Zn. 11 are being explored by partner companies.

Source: HB

## Profit and Loss

£000's	Aug '04 – Dec '05	6 months to 30 <sup>th</sup> Jun
Revenue	-	-
Operating Expenses	(257)	(256)
<b>Loss from Operations</b>	<b>(257)</b>	<b>(256)</b>
Finance Income	10	29
<b>Loss before tax</b>	<b>(247)</b>	<b>(227)</b>
Tax	-	-
<b>Retained Loss</b>	<b>(247)</b>	<b>(227)</b>

Figures may not add due to rounding

## Cash Flow

Year to £000's	Aug '04 – Dec '05	6 months to 30 <sup>th</sup> Jun
Net cash from Operations	(247)	(227)
Net Interest received	(10)	(29)
Depreciation	2	3
Employee services for issue of share options	-	13
Exchange (loss)/gain	1	(18)
Change in Working Cap	(8)	29
<b>Net cash outflow from operating activities</b>	<b>(262)</b>	<b>(229)</b>
<b>Net cash used in investing activities</b>	<b>(75)</b>	<b>(152)</b>
<b>Financing</b>	<b>515</b>	<b>1,540</b>
<b>Movement in cash</b>	<b>337</b>	<b>1,159</b>
Cash at start of period	0	178
<b>Cash at end of period</b>	<b>178</b>	<b>1,337</b>

Figures may not add due to rounding

## Balance Sheet

£000's	Aug '04 – Dec '05	6 months to 30 <sup>th</sup> Jun
<b>Non-current assets</b>		
Property, plant & equip	4	17
Intangible assets	79	205
<b>Current assets</b>		
Other Receivables	<b>43</b>	<b>36</b>
Bank balances & cash	178	1,337
<b>Total assets</b>	<b>304</b>	<b>1,594</b>
<b>Current Liabilities</b>	<b>35</b>	<b>57</b>
<b>Net assets</b>	<b>269</b>	<b>1,537</b>
<b>Equity</b>		
Issued Capital	<b>1,000</b>	<b>1,374</b>
Reserves	<b>(731)</b>	<b>163</b>
<b>Total Equity</b>	<b>269</b>	<b>1,537</b>

Figures may not add due to rounding

## Activities

Gold and base metal exploration in Turkey.

## Key Events

Date	Event
October 2005	Company incorporated
January 2006	Admission to AIM. Raised £1.87m.
March 2006	Drilling commences at Inlice
July 2006	Drilling commences at Karaagac

## Financial Calendar

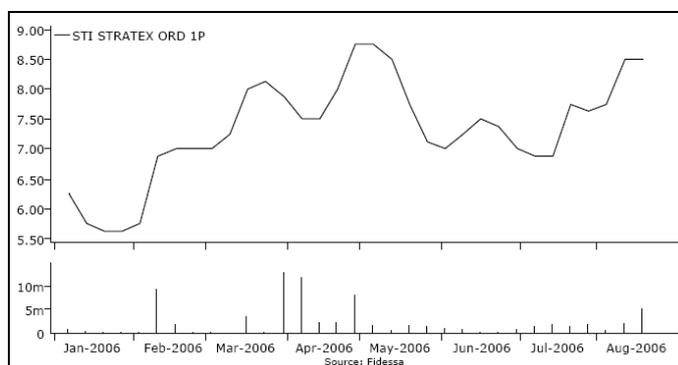
Date	Event
Year end	31 <sup>st</sup> December
Interims	31 <sup>st</sup> July
Finals	May 2007

## Major Shareholders

Shareholder	% Held
RAB Special Situations (Master) Fund Limited	28.61
Teck Cominco & Subsidiaries	11.44
David Hall	8.14
Orion Trust Limited	6.86
Rock (nominees) limited	6.86
Gavin Burnell	5.17
Robert Foster	4.48
Paul Foord	4.42
Mellon Nominees (UK) limited	3.20

## Management

Name	Position held
David Hall	Executive Chairman
Robert Foster	Chief Executive Officer
Perry Ashwood	Chief Financial Officer
Paul Foord	Non Executive Director
Gavin Burnell	Non Executive Director
Bahri Yildiz	General Manager Turkey



**Key to Material Interests**

Below are five standard disclosures of Material Interests. Of these five disclosures, the following numbers are relevant in this case:

**Stratex International Plc****Relevant disclosures: 3, 4, 5**

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