

30 March 2011

Price

7.55p

WESTHOUSE

BUY

Target price

11p

Stratex International

Gold Mining

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)	296.1
Market cap (£m)	22.4
Ent. value (£m)	21.4

Top shareholders

	% hldg
Teck Cominco Ltd	12.0
Orion Trust Ltd	8.7
Graham NJ Esq	7.9
Kairos Investment Mgmt	7.5
Richmond Capital LLP	7.2

Relative performance

Over:	1mn	3mn	12mn
Perf (%)	-5.4	-7.6	+80.2

Price/AIM All-Share rebased to STI



Unless otherwise stated, all pricing in this report is from Fidessa, as of 29 March 2011.

Marketing communication

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Gold in the Horn of Africa

Our 11p target price for Stratex International (Stratex, AIM: STI) is almost wholly supported by the company's assets in Turkey. In our view, two of those assets (Altintepe and Inlice), alone, are worth the current share price of 7.55p while the recent announcement of a c317koz JORC-compliant gold resource at Öksüt enhances its investment case further. We continue to rate the shares as a BUY.

Our price target of 11p is almost entirely attributed to the Turkish assets. However, we believe there is significant upside potential in Stratex's East African prospects, which we currently value on the basis of the JV entry transactions, where relevant: we review these assets in more detail in this note. We think the ascribed value of these assets could be significantly higher than is currently the case, pending drilling results this calendar year.

The company has been busy in East Africa since our last report (22 December 2010) with notable achievements including:

- The deal with Thani Ashanti Alliance Limited (Thani Ashanti) has been concluded, conditions precedent to the agreement having been satisfied. Thani Ashanti is a powerful new partner in the equation, and brings a \$0.5m direct investment into Stratex.
- New epithermal gold mineralisation discovered in the northern Afar region – Blackrock.
- An epithermal gold discovery within the Djibouti licences of the Afar Project, confirming the extension of low-sulphidation gold mineralisation into that country.
- Gold/silver identified at the AbiAdi-Gichke Gold Project (AbiAdi).

Stratex has a competitive advantage in the Afar region of Ethiopia and Djibouti, in what it believes could become recognised as a major new gold province. It now has a total of 7,017km² under licence.

It is rapidly accumulating an impressive record of success in exploration. The drilling of 27,000 metres in Turkey, alone, has produced a JORC resource of c.1.31 million ounces (Moz) of gold, on a JV-inclusive basis.

The Inlice project in Turkey is due to enter production in 2012, followed by Altintepe (also in Turkey) in 2013, subject to feasibility. As it does so, Stratex as an investment will be de-risked and its stock should re-rate accordingly. We therefore rate the shares as a BUY.

Partners

From a limited financial base, Stratex has acquired a substantial array of projects and prospects, with numerous licences and sub-licences. There are, at present, nineteen distinct prospects/projects, eleven of which are in Turkey and eight in East Africa. Inevitably, this has involved the development of a number of partnerships and alliances, of which there are seven so far. The quality of such partnerships is vital in two respects:

- First, there is the need for financial strength in the partner, allied with technical resources and expertise; and
- Second, the presence of a major company as partner is a significant comfort factor in assessing the ability of management and its judgment in identifying quality prospects with the best chance of hosting economic mineralisation.

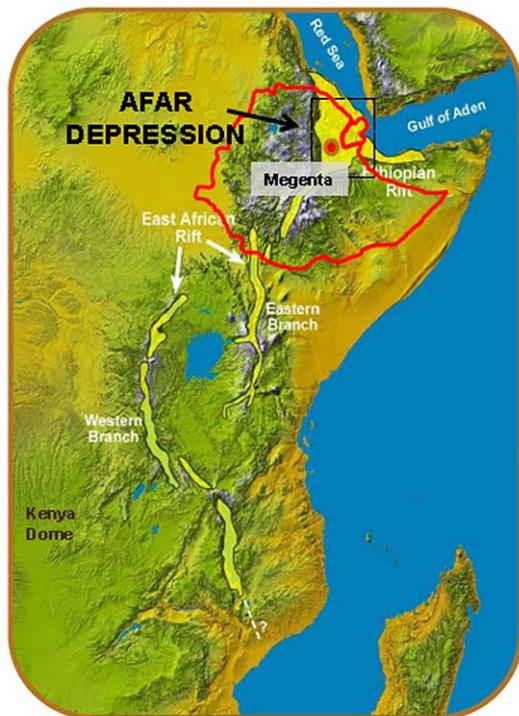
Stratex gained Teck Cominco, now Teck Resources (Teck), as a founding shareholder in 2004. Teck is Canada's largest diversified mining company, capitalised at C\$30bn with C\$132m in cash. It still owns about 12% of Stratex, and has a sliding scale royalty on the first two of the original Turkish projects to go to production, as well as a royalty on Altintepe production but excluding Inlice. In addition, it is a contributing partner in the exploration and development of the Hasançelebi project. The other contributing partners within the portfolio are:

- Centerra Gold, capitalised at C\$4.7bn, with US\$413m in cash and near cash, and no debt. It is the biggest non-domestic gold producer in Central Asia.
- Thani Ashanti, a 50/50 alliance between AngloGold Ashanti and Thani Dubai Mining.
- Aydeniz Group, a family-controlled Turkish company whose main business interests lie in engineering and construction, agriculture and food, and tourism.
- NTF Insaat Ticaret Ltd Sti (NTF) is a well-financed Turkish company. It constructed the \$350m Dalaman Akköprü Dam and Hydroelectric Power Plant and other power and engineering projects, as well as being previously involved in contract opencast coal mining.

Stratex is also earning-in to projects through:

- LozBez Mining Private Limited Company (LozBez) is Stratex's route into the AbiAdi licence, in the highly-prospective southern part of the Tigray district. LozBez is a privately-owned Ethiopian exploration company, and Stratex has the option to earn-in to 85% of the project.
- Sheba Exploration (UK) plc, a PLUS-quoted company, which is Stratex's route into the Shehagne gold project. Stratex has the option to earn-in to up to 80% of Shehagne. Stratex owns 4.93% of Sheba, having injected £40,000 into the company as part of the JV agreement. It also holds matching warrants on the same basis as well as a 70% interest in new licences in the Tigray region of northern Ethiopia.

Ethiopia and Djibouti



SOURCE: Stratex International.

Exploration by Stratex in East Africa is in two major geological regions, the larger of which is the Arabian–Nubian Shield (ANS). The ANS is exposed in the north in the Sahara and Arabian deserts; and in the south in the Ethiopian Highlands and the Yemeni Highlands.

The ANS is being split apart by the formation of the Great African Rift Valley. The Rift stretches from Syria in the north to central Mozambique in the south, crossing the equator in the process. The Nubian Plate and the Somalian Plate are moving away from each other, and also from the Arabian Plate to the north.

The triple–junction point where this occurs in the Rift system is the Afar Depression (also known as the Danakil Depression), which lies within the Rift system in northern Ethiopia, Djibouti and partly in Eritrea. Afar is the lowest point in Africa – Lake Assal in Djibouti is 155 metres below sea level and is the most saline body of water outside Antarctica. It is one of the hottest places on Earth.

Stratex has stated that Ethiopia: *“...is not subject to many of the economic and political constraints that neighbouring countries are exposed to, such as product sharing agreements and security issues. Ethiopia is both logistically and financially an easy and cost-effective place to explore.”* (1 September 2009)

Exploration by Stratex has been achieved through target identification using satellite imagery followed by reconnaissance grab sampling and mapping, which provides substantial evidence of gold mineralisation at surface but is, of course, insufficient to establish JORC resources without undertaking drilling programmes.

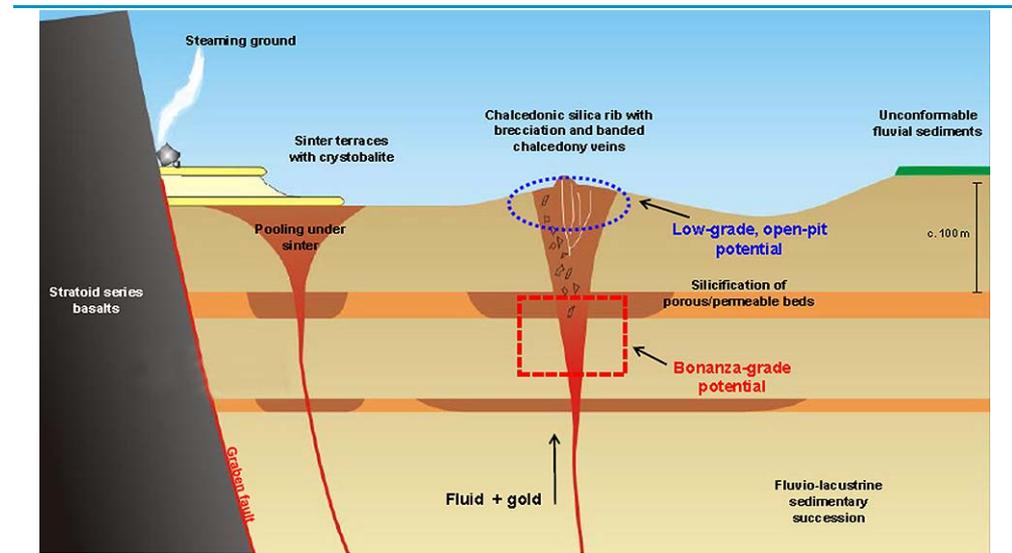
The Afar Depression appears to be rich in low–sulphidation epithermal systems. Stratex compares it with the Deseado massif in Santa Cruz province in Argentina, which has produced substantial gold over the last twelve years. Santa Cruz is subject to a feeding frenzy by major international mining corporations as well as smaller explorers. Stratex also compares the area with the Nevada Rift, host to such deposits as Sleeper (3Moz), Midas (2.5Moz) and Hycroft (6Moz).

Significantly, Stratex’s partner in the Afar Project owns the mine which started the gold rush in Santa Cruz. AngloGold Ashanti’s Cerro Vanguardia mine began production in 1998, and is still producing 200,000oz pa at a cash cost of \$335/oz. David Hall, the Executive Director for East Africa, is familiar with Cerro Vanguardia from his time as Exploration Manager for AngloGold South America. We can thus assume the company has a deep understanding of such mineralised systems.

A feature of epithermal systems is that they can contain bonanza¹ gold grades within veins at various depths, dependent on temperature and pressure conditions within the system. The Afar Depression is a considerably younger geological setting than Deseado Massif, so there has been less erosion, which means that the richer deposits may lie at slightly deeper levels (see the schematic interpretation, overleaf). The presence of these bonanza grades will be determined through drilling, which is due to start at first target, Megenta, in April 2011.

1. The term ‘bonanza’ refers to the richness in grade of the vein or deposit rather than to its quantity; grades may be up to or more than a troy ounce per tonne (1oz = c.31.1035g/t).

Afar Depression schematic interpretation



SOURCE: Stratex International.

The announcement of the JV with Thani Ashanti included the following remarks:

“Common to all project areas is the strong structural control, proximity to hot-spring activity, and a typical geochemical association of gold with arsenic, mercury and antimony. Furthermore, fluid boiling textures associated with white banded chalcedony, akin to those of Midas, have been observed at Megenta. These are key indicators of potential high-grade gold and silver precipitation...it is highly probable that already-identified alteration and hot-spring occurrences associated with the Megenta faults may lead to further discoveries throughout the Afar Depression and the East African Rift Valley.”

Arabian Nubian Shield (ANS)

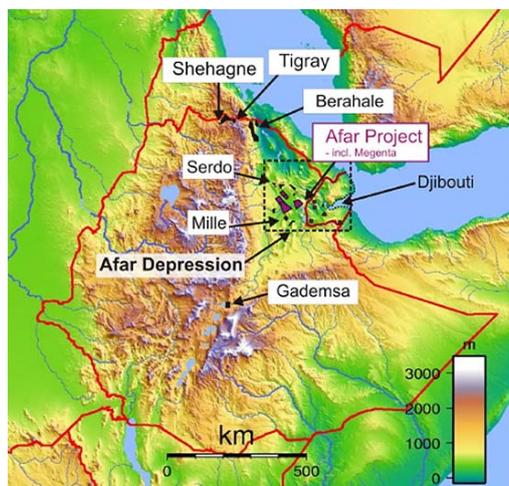
Gold mineralisation in the ANS is related to geological events in the late Proterozoic era. Deposits include:

- VMS Cu–Au–polymetallic deposits.
- Epithermal Au–polymetallic deposits.
- Mesothermal quartz vein deposits.
- Intrusion–related Au deposits.

The ANS is clearly highly prospective for gold mineralisation. There have been major discoveries on both sides of the Red Sea:

- Centamin Egypt’s Sukari deposit in Egypt, which has gold resources of c.14Moz.
- Ma’aden’s 6Moz at the Mahd adh Dhahab mine in western Saudi Arabia.
- Citadel’s Jabal Sayid 99M tonnes (Mt) copper deposit, grading 1.2% Cu.
- Nevsun’s high-grade Bisha mine in Eritrea, which has 1.06Moz Au, 9.4Moz Ag, 330,000t Cu and 488,000t Zn.
- Chalice Gold’s gold deposit in Eritrea, which has 5Mt grading 5.8g/tonne.

Stratex East Africa



The 100%-owned Stratex East Africa (SEA) was formed for the purpose of holding all the company's assets in Ethiopia and Djibouti. In this context, the management restructuring announced at the time of the completion of the JV with Thani Ashanti is of significance. David Hall has stepped down from his position as Executive Chairman of Stratex to devote himself full time to SEA as Executive Director, East Africa, where he is now focussed on the development of the company's enormous land position in East Africa, of over 7,000 km².

SOURCE: Stratex International.

Summary of SEA key projects and JVs

Projects	Partner	Partner funding (\$m)	Partner earn-in (%)	Area (km ²)	Status
Arabian-Nubian Shield					
AbiAdi	LozBez	1.0 (Stratex)	75 (Stratex)	967	Technical evaluation
Berahale				1,107	
Shehagne	Sheba	0.56 (Stratex)	60 (Stratex)	29	Drilling 2011
Tigray	Sheba		30	923	
Rift Valley					
Afar project	Thani Ashanti	3.0	51	2,709	Drilling April 2011
Blackrock				299	
Gademsa				137	
Mille Serdo				845	
Totals				7,017	

SOURCE: Stratex International.

The Afar Project

The Afar Project comprises those properties which are the subject of the JV agreement with Thani Ashanti, consisting of five Exclusive Exploration Licences (EELs) in Ethiopia and six in Djibouti, covering an area of 2,709km². The project does not include the other prospects in Afar such as Mille-Serdo and Blackrock. It does, however, include the Megenta discovery.

Thani Ashanti is committed to expenditure of \$1m in the first twelve months of the agreement and must spend a further \$2m in the second year for an earn-in to 51% of the project. It may then seek an additional 19% (for a total of 70%) in any one EEL by further expenditure of US\$4m on that EEL within four years. In addition, Thani Ashanti will acquire 5% of SEA once it has spent 50% of its first-year commitment.

Megenta is the first drill target of the JV, with Thani Ashanti's commitment in the first twelve months to include a 3,000 metre programme of drilling there. Results from the initial drilling are expected in mid-2011.

A programme of geological and structural mapping and channel sampling has enabled Stratex to identify six areas of interest within Megenta, which it has named Warthog, Baboon, Canal, Hyena, Kingfisher and Gazelle. More recent channel samples returned significant gold grades. Hyena appears to be a higher grade zone than the others, with assays returned with up to 16.5 g/t Au, with 8.8 g/t Ag.

A bonanza type deposit may lie at shallow depths, inferred from the presence of good surface grades. A well-developed sinter is present, implying that the entire system may be intact below.

Stratex's discovery of epithermal gold in the Asal EEL (35km²) confirms the extension of the Afar gold district into Djibouti. Chalcedony veins assayed up to 7.8 g/t, and an outcropping rhyolite dome up to 0.89 g/t.

Other Rift prospects

The Mille-Serdo EEL in Afar, totalling 845km², was acquired in January 2011. It sandwiches Megenta, Mille lying roughly 45km south-west of Megenta, and Serdo 47km to the north-east. The Mille licence area has epithermal mineralisation associated with altered rhyolite domes.

The Blackrock EEL covers an area of 299km² in northern Afar, 260km north of Megenta. Four vein exposures hosting low-sulphidation mineralisation have been identified over a distance of 15.9km. The Blackrock mineralisation is "very similar to Megenta". A grab sample from the Discovery Outcrop (in the middle of the prospect area) yielded 2.3 g/t Au. Exploration is already under way.

Arabian-Nubian Shield prospects

Shehagne

The Shehagne EEL discovery sparked Stratex's involvement with Sheba in September 2009. The terms of the Shehagne JV differ from those of the Tigray exploration JV with Sheba described below. Initial earn-in is to 60% on expenditure of £100,000 in the first three months and a further £250,000 in the succeeding 18 months. The Stratex interest can rise to 80% on funding of a feasibility study.

Exploration to date has been highly encouraging. Sheba's discovery of bedrock gold mineralisation has been confirmed and extended at Tsemmetti, which is the principal target. Recent RC and channel-chip sample results, combined with work previously reported by Sheba, delineates an anomalous north-east trending zone of gold mineralisation covering an area approximately 1,300 metres long by 200 metres wide.

Due to the steeply incised topography, the vertical extent of mineralisation is known to be at least 70 metres, indicating significant potential for its down-dip continuation. Mineralisation remains open to the north-east and south-west.

Tigray

Tigray province is in the north of Ethiopia, at the southern end of the ANS extension. The Tigray EEL, which hosts Mariam Hill, is one hundred percent owned by Stratex and is part of the JV agreement with Sheba, Sheba having the right to earn-in to 30% on proportionate contribution to exploration. As with the other JV exploration targets, Sheba may go to 50% by reimbursing Stratex with 20% of total exploration costs (this applies to the entire JV, not just any one of the targets).

A licence-wide stream-sediment sampling programme was conducted at a spacing of 3km², which identified several anomalies, leading to identification of the Mariam Hill prospect. A zone at the eastern margin of the prospect was found to host a series of quartz veins about 5–10cm thick over a combined thickness of up to 10 metres. Channel-chip sampling yielded continuous intervals of 7 metres at 0.82g/t and 10 metres at 0.23g/t Au. Work will continue later in the year.

AbiAdi

The LozBez-owned AbiAdi EEL is located within the Tigray province, approximately 75km south of the Tigray EEL. Stratex is acquiring a 75% interest in AbiAdi through expenditure of \$1m, including completion of 3,000 metres of diamond core drilling. At this point it will form a JV company with LozBez and can bring its interest up to 85% by funding a bankable feasibility study (BFS). Further development will be on a “contribute or dilute formula” and, if LozBez’s interest falls below 10%, it will be reduced to a 2% net smelter royalty (NSR), with Stratex owning 100% of the project.

Gold and silver mineralisation occurs as a quartz vein system, which is continuous over 2.86km. Veins are in varying thickness from less than a centimetre to eight metres. Of the 212 rock samples collected, 43% have averaged >0.1g/t Au, and 16% >1.0g/t, with some exceptionally high grades of silver. Work is planned to recommence in Q3 2011.

Berahale

The Berahale EEL is east of the Tigray EEL, and is an extension of the Asmara gold belt being actively explored across the border in Eritrea. It is 100%-owned by Stratex.

There has been little modern exploration, but Stratex believes that there is considerable potential for the discovery of gold and gold-base metal deposits, and will extend its regional stream sediment programme and mapping to cover the concession.

Turkey: Production in sight

Summary of Turkey key projects and JVs

Projects	Partner	Partner funding (\$m)	Partner initial earn-in (%)	Area (km ²)	Au resource (oz)	Status
Altintepe	NTF	2.5	55	17	574,013**	Scoping/feasibility
Altunhisar				455		
Hasançelebi	Teck	2.0	51	352		Advanced exploration
Karaağac				13	156,798	Exploration
Konya – Inlice	NTF	2.0	55	19	262,300	Feasibility
Konya – other				77		
Muratdere	Aydeniz	2,500m*	55	25		Exploration
Öksüt	Centerra	3.0	50	112	317,256	Advanced exploration
Other				278		
Totals				1,347	1,310,367	

NOTE: *Drilling commitment; **The total resource at Altintepe contains an additional 3.18Moz silver.

SOURCE: Stratex International.

Stratex's interests in Turkey are more advanced than those in East Africa, and have been covered in previous reports. There have, however, been further developments, including a drilling report from the Muratdere porphyry copper-gold project. Two projects are being progressed towards development stage, both in the JV with the company's strong Turkish partner, NTF. The first to be developed will be Inlice, followed by Altintepe, the latter being subject to NTF's decision to move to a feasibility study.

The new JORC resource at Öksüt brings a further potentially exciting dimension to the Turkish portfolio.

Inlice

Inlice oxide gold resource

	tonnes	Grade (g/t Au)	Gold (oz)
In-situ resource			
Measured	327,036	2.9	31,000
Indicated	307,331	2.06	20,000
Inferred	310,128	1.89	19,000
Total	944,495	2.29	70,000
Talus resource			
Indicated	205,673	1.06	7,000
Inferred	1,141,301	0.58	21,300
Total	1,346,974	0.65	28,300

NOTE: The total resource includes a further 164,000 oz gold at 1.78g/t, identified within sulphide material. The resource is likely to be revised as a part of the feasibility study.

SOURCE: Stratex International.

NTF is currently funding a feasibility study on the project, carried out by Nevada-based Kappes, Cassiday & Associates. Permitting and commencement of mine construction are expected to take place H2 2011, with first gold pour in H1 2012.

Altintepe

Altintepe oxide gold resource

	tonnes	Grade (g/t Au)	Gold (oz)
Measured	287,333	1.78	16,453
Indicated	9,287,370	0.87	259,661
Inferred	3,523,434	1.73	196,204
Total	13,098,137	1.12	472,318

NOTE: A further 101,695 oz gold (Au) has been identified within sulphide material.

SOURCE: Stratex International.

Altintepe is the larger of the two projects, and is also being developed in partnership with NTF. The project is at the scoping stage and first gold is targeted for 2013, subject to successful completion of a feasibility study. Following recent resource drilling on the property, an updated resource for the Kayatepe and Extension Ridge zones is expected shortly.

Muratdere

JV partner Aydeniz has confirmed that it will fund the next stage of drilling to enable it to vest 75% of the project. This will trigger two separate payments of \$250,000 to Stratex, following which both partners will continue on a “contribute or dilute” basis.

This follows positive results from the latest drilling, and will include a further c.2800 metres of diamond drilling, in addition to the 2,680 metres already completed, for a total of 5,500 metres. The results include good grades for Au, Cu, Mo and Re.

What is notable is that Aydeniz has earned into 55% of the project within three months rather than the twelve months required by the JV agreement, showing its clear enthusiasm for the project.

Öksüt

Stratex has announced an updated resource at its Ortaçam and Ortaçam North targets following recent drilling undertaken as part of Centerra Gold’s earn-in on the property.

Centerra had earlier (20 January 2011) confirmed funding for the Öksüt project for 2011. To date, Centerra has spent \$2.29m, and has committed to a further \$1.3m for 2011, which will bring it over the \$3m agreed to acquire 50% of the project. Beyond that, it has the option to increase its interest to 70% on expenditure of a further \$3m.

The programme for 2011 will include 4,600 metres of diamond drilling, which is expected to begin in Q2.

A significant proportion of the work programme will continue to be concentrated on defining the nature and extent of mineralised zones at Ortaçam North and the Ortaçam Zone. A feature of the 2010 drilling results is the identification of a preliminary low-grade oxide Au resource, based on the results of five short diamond drill holes which demonstrate sub-surface continuation of mineralisation some 500 metres north of the main Ortaçam Zone.

Drilling will be assisted by ground based geophysical surveys, and will be extended to include areas not yet drilled. The statement by Stratex says:

“...mineralisation has been recorded that appears to have preferentially replaced a gently dipping volcanic unit rather than occupying the steeply dipping and relatively narrow breccias zones that are more typical of the main Ortaçam Zone. This has important economic implications for the potential of identifying large-tonnage near-surface mineralised bodies that may extend laterally for significant distances.”

(Westhouse emphasis)

Stratex had previously published a (non-JORC) resource estimate of 147,814oz Au. The JORC resource now confirmed by Wardell Armstrong is as follows:

Öksüt resources

		Oxide		Sulphide		Total Au/oz	
		0.20	0.40	0.20	0.40	0.20	0.40
Ortaçam Zone							
Indicated	Mt	3.46	2.90	1.17	0.73	4.62	3.63
	Grade (g/t)	1.24	1.42	0.68	0.89	1.10	1.31
	Au/oz	138,380	132,506	25,469	21,088	163,849	153,594
Inferred	Mt	3.29	2.65	2.71	1.43	6.00	4.07
	Grade (g/t)	0.79	0.90	0.58	0.82	0.69	0.87
	Au/oz	83,427	76,421	50,346	37,385	133,774	113,806
Ortaçam North Zone							
Inferred	Mt	1.05	0.78			1.05	0.78
	Grade (g/t)	0.58	0.68			0.58	0.68
	Au/oz	19,633	16,954			19,633	16,954
Total Au		241,440	225,881	75,815	58,473	317,256	284,354

SOURCE: Stratex International.

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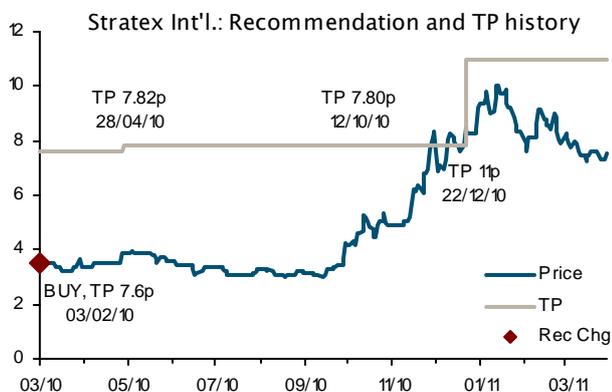
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Recommendation and target price history



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. This recommendation was first published on 7 May 2009.



WESTHOUSE

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Equities ratings are explained as follows:

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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Equities recommendation breakdown: 31 Dec 2010	BUY	ACC.	HOLD	RED.	SELL
Overall equities coverage	71.4%	3.2%	17.5%	0.0%	7.9%
Companies to which Westhouse has supplied investment banking services	94.7%	0.0%	5.3%	0.0%	0.0%