



## MINING RESEARCH

### Stratex International Stratex Strategizes

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At last week's AGM, Stratex discussed its new strategy to deliver shareholder value in 2009 and beyond. The company's immediate aim is to generate cash flow from its current circa 1.0m ounce gold resource at Altintepe and Inlice by entering into JVs to develop the projects. To this end, Stratex is in discussions with several well resourced and technically able partners with local expertise. The group is also in negotiations with a number of parties interested in Stratex's exploration portfolio, especially targeting the Miocene volcanic belts, which include both the Konya and Öksüt prospects. In addition, Stratex continues to consider other strategies that would benefit shareholders including the acquisition of new assets outside Turkey.

With £2.7m of cash on the balance sheet, Stratex has an enterprise value of £2.3m. This implies a valuation of only US\$3.40 per ounce for the company's current resource. We believe that this substantially undervalues the assets and opportunities for Stratex and we welcome the strategy that the management has adopted. We believe that the company's current discussions highlight the quality of the Stratex portfolio and any such JV would have a significant positive impact on the share price.

#### Strategy

At Stratex's AGM on 30 April and in the presentation on the company's website (<http://www.stratexexploration.com>), Stratex presented its strategy for 2009 and beyond.

Stratex stated that its plans for 2009 could see the company progress towards becoming a gold-producer with a much-expanded exploration base both geographically and ultimately, with a wider commodity focus:

The group stated that it is in discussions with several parties and the successful conclusion of these negotiations would allow the company to extract value from its current assets, whilst continuing to allow it to focus on its key strength and area of expertise - exploration. In total, Stratex has drilled 17,623m and has found 993,111 oz of gold and 3.2 M oz of silver (28,600 oz gold equivalent) or, an outstanding 59 oz of gold per metre drilled.

#### Current assets

Stratex plans to find JV partners for its current gold assets, namely the 574,013 oz Altintepe and the 262,300 oz Inlice projects in order to fast track its portfolio into production.

Stratex's skill set and staff base is exploration focused and we believe that it makes sense for the company to JV these smaller assets to a technically competent and well resourced partner. We envisage that small or medium gold discoveries will also be taken forward with its JV partners, whilst any new major gold discoveries greater than one million ounces would be sold or put into a JV with a top-tier producer.

When Syrah pulled out of a JV with Stratex in November 2008, Stratex cited issues relating primarily to the sharp deterioration of the financial markets, which made Syrah particularly risk averse. This would also have made it difficult to raise the finance required to complete both the JV and feasibility studies.

As experience has shown, it is therefore important for Stratex to find a well resourced partner and to this end; the company expects to make an announcement within the next few months.

# BUY

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#### SALES & TRADING CONTACTS

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#### COMPANY DESCRIPTION

An exploration and development company focusing on gold and high value base metals in Turkey

#### INVESTMENT DATA

Ticker	STI
Listing	AIM
No. of shares	234.2m
Market cap	£5.0m
Enterprise value	£2.3m

#### SHAREHOLDERS Holding (%)

Kairos Inv M'ment Ltd	14.47
Orion Trust Ltd	10.98
Nick Graham	9.82
Teck Limited	8.75
David Hall	5.35
Cenkos CI Nominees	4.08
<i>(As of 1 March 2009)</i>	

#### 12M SHARE PRICE PERFORMANCE



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## Exploration

### To Turkey

Stratex stated that it is in discussions with a number of parties interested in the company's exploration portfolio, especially targeting the Miocene volcanic belts which include both Konya and Öksüt. The available portfolio for a new JV partner was enhanced last month when Teck Cominco decided to relinquish its option on Konya. Stratex is exploring for large deposits with a target of greater than 1 Moz gold and so it makes sense to reduce costs by using a partner to explore interesting, probably smaller, projects that may not attract the major producers but would be ideal for local producers to take into production.

Teck remains a significant shareholder in Stratex and still retains an option over one project of its choice in Turkey. Our own view on the situation at Teck is that, despite short term debt worries, Teck will recover and in order to reduce short term costs, would be happy to be exploring by proxy through the likes of Stratex.

### And beyond

Stratex's current cash balance will last until the end of next year and the company has re-iterated that it has no need to raise additional financing at the present time. However, upon signing an agreement covering the current resources, Stratex will free up significant capital enabling it to take advantage of declining asset prices in the wider market.

Although Turkey remains the key focus, Stratex would consider the acquisition of new assets outside Turkey both from distressed explorers and via new discoveries. We believe that these companies would be looking to tap into Stratex's exploration excellence and to this end Stratex has stated that it is looking for opportunities within the same time zone as Turkey.

The company's strong cash position clearly differentiates it from the majority of its peers but we believe that investors are currently wary of exploration companies viewing them as high risk. However, when Stratex is able to demonstrate a clear ability to convert the discovered ounces in the ground into dollars in the bank, the company will be viewed differently and will undergo a substantial re-rating.

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