



MINING RESEARCH

Stratex International**3.25p****Strategy Succeeding****18 August 2009**

Stratex (AIM: STI) has been very busy since its AGM in April. Swiftly after announcing an agreement with NTF to fast track development of Stratex's Inlice and Altintepe projects, Stratex signed a joint venture (JV) agreement with Centerra Gold (TSX: CG) to explore and develop Stratex's highly prospective Öksüt gold project in Turkey. Centerra will pay Stratex US\$3.0m over three years for a 50% interest, with a minimum spend of US\$500,000 in the first year. Centerra can acquire an additional 20% for a further US\$3.0m over the following two years. Centerra will also reimburse Stratex's exploration costs of US\$130,000, incurred since mid-May 2009.

Stratex currently has approximately £2.6m in cash and will receive a further US\$1.0m upon signing a definitive agreement with NTF. Based on the NPV₁₀ of the Inlice and Altintepe projects, the new agreement with Centerra and its cash position, we value Stratex at 8.8p per share. This represents a 171% premium to the current share price and in view of the upside potential available to investors, we retain our **BUY** recommendation.

Stratex is an efficient low cost gold explorer with a track record of having discovered 59oz of gold per metre drilled. However, we believe this has not been appreciated by the market and the company has continued to lag its peers.

Since founding shareholder, Teck Cominco, relinquished some of its options over several of Stratex's projects, Stratex has been able to look at other ways to develop these projects and to deliver shareholder value. The company announced at the AGM in April that it was looking to move its projects into production by joint venturing existing projects whilst also looking to expand its existing portfolio whether geographically or by looking for other commodities.

Since the AGM, there has been a flurry of activity as Stratex has implemented its new strategy for delivering value to shareholders. Firstly, the JV established with NTF will enable Stratex to become a gold producer within 18 months and provides the perfect vehicle for Stratex to develop other projects. The company will also receive US\$1.0m in cash.

Secondly, the new agreement with Centerra enables Stratex to develop the highly prospective Öksüt project and progresses the strategy to JV its exploration portfolio. The terms of the joint venture are that Centerra will pay Stratex US\$3.0m over three years for a 50% interest in Öksüt. Centerra can acquire an additional 20% for a further US\$3.0m over the following two years. Centerra will also reimburse Stratex's exploration costs since mid-May 2009 of US\$130,000.

By forming the JV, Stratex avoids the need to fund the higher cost and higher risk stages of exploration, allowing it to focus on early stage exploration. We believe Centerra is the ideal partner for Stratex at Öksüt. Centerra is an existing producer with a portfolio of exploration projects, having signed similar deals with other companies, including Kefi Minerals and Eurasian Minerals in Turkey. Centerra is also well funded, with a US\$29.0m exploration budget for this year. This will enable it to fast track exploration at Öksüt where it is committed to spending at least US\$500,000 this year.

Stratex currently has £2.6m in cash and will receive a further US\$1.0m on signing a definitive agreement with NTF. These funds could last Stratex 16 months at its current rate of expenditure. Stratex will now look to drill test its Hasangelebi project but the company also believes that now is the right time to look at new areas outside of Turkey and we expect Stratex to update the market by the end of the year.

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See reverse

COMPANY DESCRIPTION

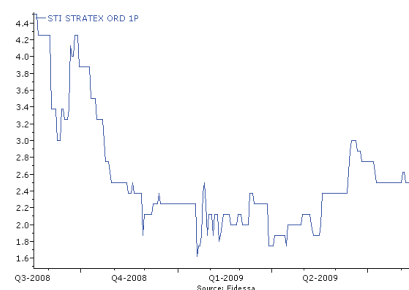
An exploration and development company focusing on gold and high value base metals in Turkey

INVESTMENT DATA

Ticker	STI
Listing	AIM
No. of shares	234.2m
Market cap	£7.61m
Enterprise value	£5.01m

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
Centos CI Nominees	4.08
(As of 1 May 2009)	

12M SHARE PRICE PERFORMANCE

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For important regulatory disclosures, please refer to the information on page 6 of this report.

New strategy

As we discussed in our note on 7 May 2009 (“Stratex Strategizes”), Stratex discussed its new strategy to deliver shareholder value in 2009 and beyond at the AGM. The new strategy comprised three parts:

1. Joint venture (JV) its current gold assets, namely the 574,013 oz Altintepe and the 262,300 oz Inlice project in order to fast track them into production.
2. JV its current exploration portfolio to reduce risk and costs.
3. Consider using its cash to acquire new assets outside Turkey both from distressed explorers and via new discoveries. Stratex has stated that it is looking for opportunities within the same time zone as Turkey.

Part I - Check

Stratex announced on the 15 June 2009 that it had entered a Memorandum of Understanding (MOU) with local Turkish company, NTF İnfaat Ticaret Ltd (NTF), to form a joint venture company (JVC) to develop Stratex’s Inlice and Altintepe projects. Last week, Stratex announced that it has received US\$157,000 as part of this agreement pending the signature of the definitive agreement in Q3 2009. Under the terms of the agreement, Stratex will have 45% of the new JVC which intends to take Inlice into production within 18 months and Altintepe in 36 months respectively.

In exchange for the equity in the JVC, NTF will pay Stratex US\$1.0m, fund the feasibility study at Inlice up to US\$2.0m and fund a pre-feasibility study at Altintepe up to US\$500,000. Upon successful completion of the pre-feasibility study at Altintepe, NTF will fund a further US\$2.0m to complete the full feasibility study. Once a decision is made to move either project into production, Stratex must either contribute to the cost or have its stake in the JVC diluted. However, at Inlice, Stratex has the additional option of receiving up to US\$2.0m as a loan from NTF to fund its contribution.

If at any stage NTF decides not to proceed with a project, that project will return to the control of Stratex at no cost to the company.

Part 2 - Check

Stratex has signed a JV agreement with Centerra Gold (TSX: CG) to explore and develop the Öksüt project. Centerra will receive a 50% interest in the project in return for funding US\$3.0m over the first three years, with a minimum of US\$500,000 to be committed in the first year. Once the 50% interest is fully vested, Centerra has the option to earn a further 20% for an additional US\$3.0 over the following two years. Centerra will also reimburse Stratex’s exploration costs from mid-May 2009 which amounts to approximately US\$130,000. The funds will initially be used for a trenching and drilling programme scheduled for Q3-Q4 2009. This will aim to further delineate the potential at Öksüt.

Centerra Gold – focus on Turkey

Centerra is a Canadian-based gold mining and exploration company with a market capitalisation of over C\$1.5bn. The company has two producing gold mines: Kumtor in the Kyrgyz Republic and Boroo in Mongolia. In 2008, Centerra produced 748,888 ounces of gold at a total cash cost of \$483/oz and aims to produce 720-770,000 ounces this year. It also has interests in several exploration projects and has allocated \$25.0m for exploration activities in 2009. The current projects include:

- 100% interest in the Gatsuurt property in Mongolia near Boroo
- 63% interest in the REN JV in Nevada, US
- 75% earn in to the Tonopah Divide property in Nevada
- 70% earn in on the Kara Beldyr project in the Tyva Republic in Russia with Central Asia Gold AB

Centerra has recently turned its attention to Turkey. In October 2008, it established a JV with Kefi Minerals (AIM: KEFI) for the Artvin project. The deal is similar to the one with Stratex, with Centerra earning a 50% interest by spending US\$3.0m on exploration over three years and an option to acquire a further 20% by spending an additional US\$2.0m over a further two years.

In January 2009, Centerra established a JV with Eurasian Minerals (TSXV: EMX) for its Akarca, Samli and Emali projects, again all in Turkey. The terms of the JV are for Centerra to spend US\$5.0m on exploration over four years for a 50% interest with an option to earn a further 20% by spending an additional US\$5.0m over another two years. Once ownership is vested in the projects, each partner must contribute or dilute. Should a partner dilute to 10%, its ownership is converted to a 4% NSR, which may be reduced to a 2% NSR by the payment of \$4.0m by the non-diluting party.

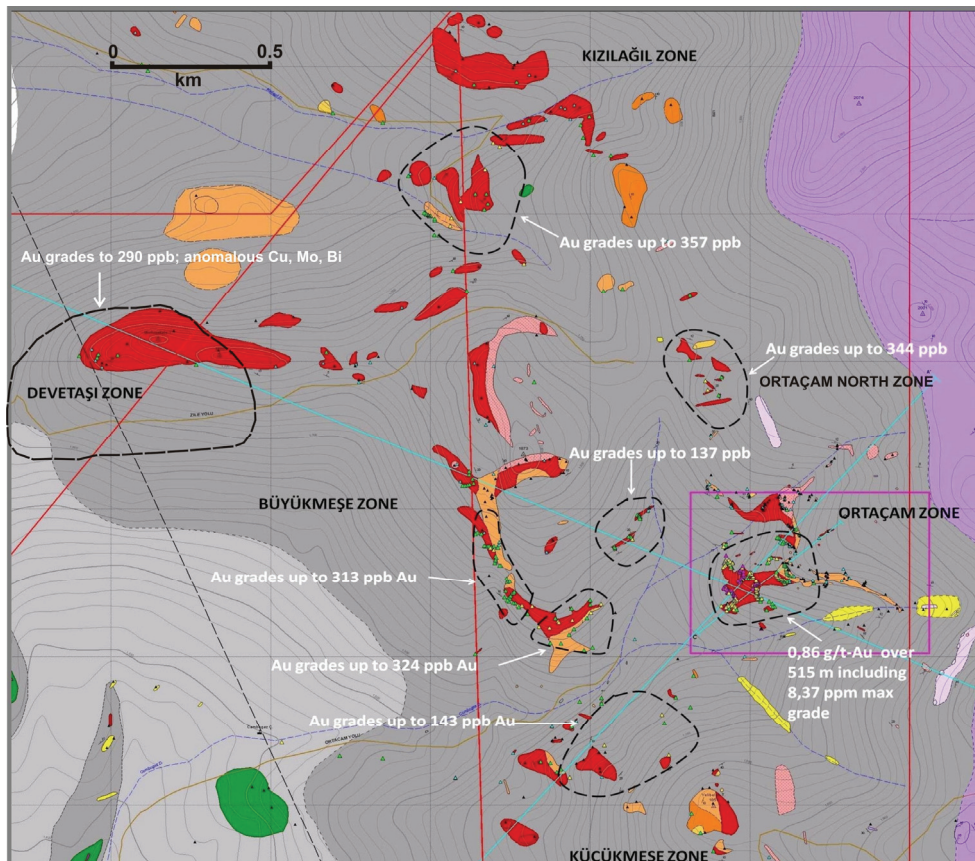
Öksüt

Since mid-August 2008, Stratex has completed 2,677.9 metres of drilling at Öksüt (see Figure one below). The Ortaçam Zone is the one of a number of discrete silica zones that are possibly linked at Öksüt, where the mineralisation in the Ortaçam Zone is largely confined to steeply inclined breccia zones, with outcropping silica representing more extensive upper parts of breccia zones that taper at depth.

Drill intersections to date were all within the oxide zone which goes down to a maximum depth of 100 metres, the degree of which is dependent upon the amount of pervasive fracturing present. The total zone of mineralisation is currently 200 metres x 300 metres. Four additional outcropping zones at Ortaçam North, Buyukmese, Kizilagil and Kucukmese have been targeted for further exploration and possible drilling.

A soil geochemistry survey has also been completed over the full prospect area (4,000 metres x 4,000 metres) with extensive alteration and associated gold values exceeding 0.1 g/t gold have now been mapped over an area on 8km², a 33% increase from the original 6km². In addition, a fifth area (Devetası) has been identified by anomalous concentrations of Au (to 0.29 g/t), copper, molybdenum, and bismuth and may be indicative of a concealed porphyry system.

Figure one: Map of Öksüt showing full extent of zones of mineralisation zones and position of potential porphyry system at Devetası, looking towards the south-west



Source: Company

Drilling highlights at Öksüt

Highlights of drilling to date include:

- 270.2 metres from surface grading at 1.16 g/t gold (Au) in oxide and minor sulphide in drill hole ODD-8 - including 40.7 metres from 77.0 metres grading at 2.76 g/t Au in oxide
- 62.45 metres grading at 2.16 g/t Au in oxide in hole ODD-3
- 73.3 metres grading at 1.36 g/t Au in oxide in hole ODD-4
- 219 metres grading at 2.54 g/t Au in hole ODD-12 including 93.6 metres grading at 5.61 g/t Au

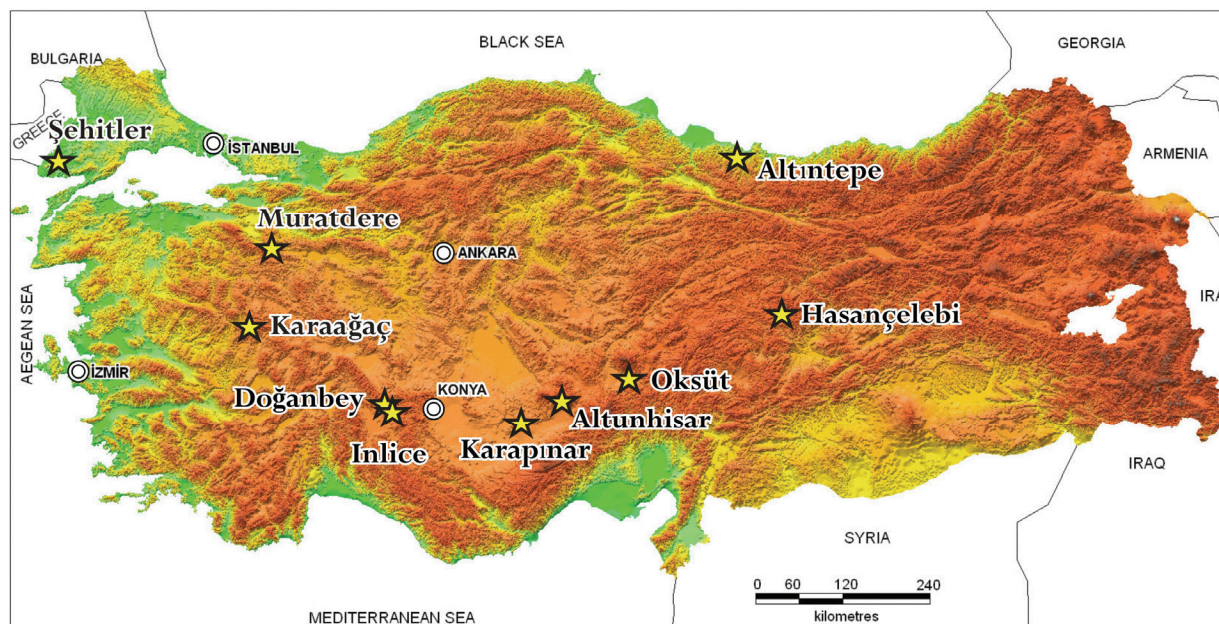
Other projects

Stratex has several other early stage gold projects in Turkey. These include:

1. Doğanbey, one of four porphyry gold targets within the Konya Volcanic Belt
2. Muratdere - a porphyry gold-copper-molybdenum occurrence
3. Karaağaç - a partially exposed, gently dipping gold-bearing zone

With reduced expenditure required at Inlice, Altintepe and now Öksüt, we expect Stratex to re-assess all of the above projects or look to form another JV for their development. However, Stratex will now focus on the Hasaңcelebi project where it has already defined an 858m long section with average grades of 0.69 g/t Au over a width of 7.4m. This includes a higher-grade section of 278m averaging 0.99 g/t Au over a width of 9.1m. The company is looking to discover further significant oxide gold mineralisation in this section and has already been in discussions regarding possible joint ventures. However, Stratex is likely to add value by drill testing the project itself before bringing in any third parties.

Figure Two: Location of Stratex's current projects including Öksüt and Hasaңcelebi



Source: Company

Part Three – By Year End?

Stratex has moved quickly since the AGM and with a significant cash balance and reducing costs, we believe that the company is in a strong position. In the interim statement, Stratex CEO David Hall said “We also believe the time is now right to look at new areas outside of Turkey where the management's expertise can repeat our business model and secure growth for shareholder value. We expect to report developments on this front before the end of the year.”

Valuation

We use a sum of parts valuation for Stratex based on an **NPV valuation of 45% ownership of the NTF JVC**.

Our NPV₁₀ valuation of Stratex's 45% stake in Inlice is £3.96m and our valuation of Altintepe is £11.47m based on the same criteria. Our calculations assume a long term gold price of US\$750/oz and US\$:£ exchange rate of US\$1.66:£1.00. This generates a total value for Stratex of £15.43m, equivalent to 6.6p per share.

Valuation of the remaining holding in Öksüt pro-rata to the contribution from Centerra

As Centerra is willing to pay US\$3.0m for 50% of Öksüt, we can value the remaining 50% at a similar level. This implies that Stratex's 50% stake is worth £1.8m, equivalent to 0.77p per share.

Cash

Stratex's cash position is approximately £2.6m and the company has just received US\$157,000 from NTF although this cash is being used to progress Inlice and Altintepe including the gap study being carried out by Golder Associates. Nevertheless, upon signing the definitive agreement with NTF, Stratex will receive a further US\$1.0m. In aggregate, this implies that Stratex's cash position is worth an additional 1.4p per share.

Aggregate valuation

Our sum of the parts valuation is £20.53m, equivalent to 8.8p per share. We have included no value for any of Stratex's other projects, including the additional projects surrounding Inlice in the Konya belt. Our valuation represents a 171% premium to the current Stratex market capitalisation of £7.61m and share price 3.25p and so we continue with our **BUY** recommendation for Stratex.

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