



MINING RESEARCH

Stratex International Chasing King Solomon's Mines

3.75p

15 September 2009

Since Stratex began a new strategy to deliver increased shareholder value following its AGM in April and the announcement of JVs with NTF and Centerra Gold, the share price has risen 53%. Stratex is expanding its exploration and development activities in Ethiopia and has acquired shares in local operator, Sheba Exploration, signed an earn-in at Sheba's Shehagne gold project and established an exploration joint venture covering highly the prospective northern region of Ethiopia. Stratex remains cash rich following the acquisition of Sheba shares and has funds of £2.6m after meeting all of its funding requirements. Our valuation of 8.0p per share represents a substantial premium to the current share price and we maintain our **BUY** recommendation for Stratex.

Stratex has concentrated on delivering shareholder value over the past few months, with particular focus on extracting maximum upside from its existing projects in Turkey. This included forming a Joint Venture (JV) company with Turkish entity, NTF İnsaat Ticaret Ltd (NFT), to develop Stratex's Inlice and Altintepe projects and subsequently signing a JV with Centerra Gold (TSX: CG) to explore and develop Stratex's highly prospective Öksüt gold project in Turkey.

Now Stratex is looking to expand into Ethiopia through a series of agreements with Sheba Exploration (PLUS: SHE). Stratex has agreed to acquire 5.3 million new shares at 0.75p through a private placement. This would give Stratex an interest in Sheba of 5.6%. Stratex is also entitled to 5.3 million matching warrants, exercisable at 0.75p for two years.

Stratex and Sheba have also signed a Binding Letter of Intent under which Stratex can earn-in to an initial 60% of Sheba's prospective Shehagne Exclusive Exploration Licence in Ethiopia, subject to Stratex spending £350,000. Subject to renewal of the concession for a further year by Sheba, Stratex can then earn 60% of the Shehagne EEL by expending £100,000 in the initial three months and a further £250,000 over the subsequent 18 months. Stratex may also earn a further 20%, taking its holding to 80%, by taking the project to completion of a feasibility study.

Finally, Stratex and Sheba have formed a JV to explore and acquire licences over new prospective targets in northern Ethiopia. Stratex believes that target areas that are currently under review have great potential for the discovery and development of gold +/- copper and massive sulphide deposits. The new JV will be split 70:30 in Stratex's favour. However, Sheba may earn up to 50% of the JV by reimbursing Stratex a further 20% of the total exploration costs.

Northern Ethiopia is underlain by rocks of the Arabian Nubian Shield, which hosts recent discoveries such as Centamin's Sukari gold deposit in Egypt and Nevsun's Bisha in neighbouring Eritrea. The prospectivity is highlighted by the recent agreement by Antofagasta, one of the world's premier copper producers, to invest US\$10m on exploration projects in Eritrea, due north of where Stratex/Sheba are focusing their attention. Another recent entrant, Dwyka Resources, is developing the Tulu Kapi gold deposits in rocks of the same age in western Ethiopia.

Sheba's Shehagne project is still early stage but a soil geochemistry survey in the northern part has identified a 3km by 300m wide gold soil anomaly. The anomaly appears to be closely associated with high-density swarms of underlying gold-bearing quartz veins and adjacent zones of altered wall rocks. This suggests that the potential gold resource may be large and as it is close to surface, it may be amenable to development by a low cost open pit mining operation.

We believe that Ethiopia, which is highly prospective but underexplored and Sheba, which has a good project but limited funds, are a good fit for Stratex. Stratex is an efficient low cost gold discoverer with a track record of having discovered 59oz of gold for every metre drilled. We believe that Stratex's opportunity to add substantial upside at low cost in Ethiopia marks the implementation of the third part of management's strategy to create shareholder value.

BUY

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SALES & TRADING CONTACTS

See reverse

COMPANY DESCRIPTION

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

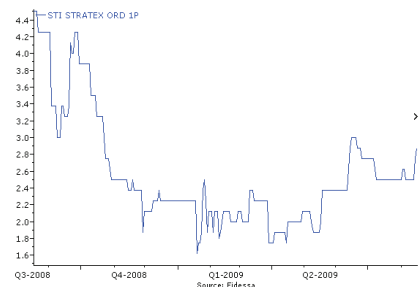
INVESTMENT DATA

Ticker	STI
Listing	AIM
No. of shares	234.2m
Market cap	£9.35m
Enterprise value	£6.79m

SHAREHOLDERS Holding (%)

Kairos Inv M'ment Ltd	14.47
Orion Trust Ltd	11.03
Nick Graham	9.82
Teck Limited	8.75
David Hall	5.35
Centos CI Nominees	4.14
(As of 15 July 2009)	

12M SHARE PRICE PERFORMANCE



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For important regulatory disclosures, please refer to the information on page 7 of this report.

New Strategy Reaping Rewards

At its AGM on 30 April, Stratex stated that it was substantially changing its strategy with the aim of delivering more value to shareholders in 2009 and beyond. The new strategy comprises 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. Initially the oxide portion of the resource will be targeted at both projects (472,318 oz and 98,300 oz respectively)
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 broadly within the same time zone as Turkey.

At the time of our note "Stratex Strategizes" on 7 May which discussed the new strategy, the share price was 2.125p. By the time we wrote "Strategy Succeeding", on 18 August detailing how the company has announced the implementation of parts one (JV with NTF) and two (JV with Centerra) of the strategy, the price had risen 53%, demonstrating how the new strategy was already creating value for shareholders.

Part Three - Ethiopia

In the company's interim statement on 18 August, Stratex's Chairman 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".

In fact the company announced on 1 September that it was implementing the final part of the strategy with a new JV with Sheba Exploration in Ethiopia.

Sheba Exploration

Sheba Exploration (PLUS: SHE) is a UK Plus market listed company focused on gold exploration in Ethiopia. The company was formed in November 1998 and began exploration on its Mereto Exclusive Exploration Licence in January, 1999. Sheba Exploration (UK) Plc commenced trading on Ofex (now Plus) in September 2004. During the ten years that Sheba has been in Ethiopia it has discovered and progressed a varied portfolio of gold and copper prospects on its Mereto, Shehagne, Una Deriam, Winibo, Finarwa and Dongwar concession areas.

The Deal

Acquisition of shares in Sheba

Stratex has agreed to acquire 5.3 million ordinary shares in Sheba for £40,000 through a private placement at 0.75p, giving Stratex an interest of 5.6% in Sheba. Stratex is also entitled to 5.3 million matching warrants which are exercisable at 0.75p for the next two years.

Earn in at Shehagne

Stratex and Sheba have signed a Binding Letter of Intent under which Stratex can earn-in to an initial 60% of Sheba's prospective Shehagne Exclusive Exploration Licence, subject to Stratex spending £350,000. Subject to renewal of the concession for a further year by Sheba, Stratex can then earn 60% of the Shehagne EEL by expending £100,000 in the initial three months and a further £250,000 over the subsequent 18 months. Stratex may also earn a further 20%, taking its holding to 80%, by taking the project to the completion of a feasibility study.

Exploration Joint Venture for Northern Ethiopia

Furthermore, Stratex and Sheba have formed a JV to explore and acquire licences in northern Ethiopia. The two companies plan to combine forces to explore new prospective targets and licence areas in northern Ethiopia. Stratex believes that potential licence areas, which are currently under review, have great potential for gold +/- copper and massive sulphide operations.

The new JV will be split 70:30 in Stratex's favour. However, Sheba may earn up to 50% of the JV by reimbursing Stratex a further 20% of the total exploration costs.

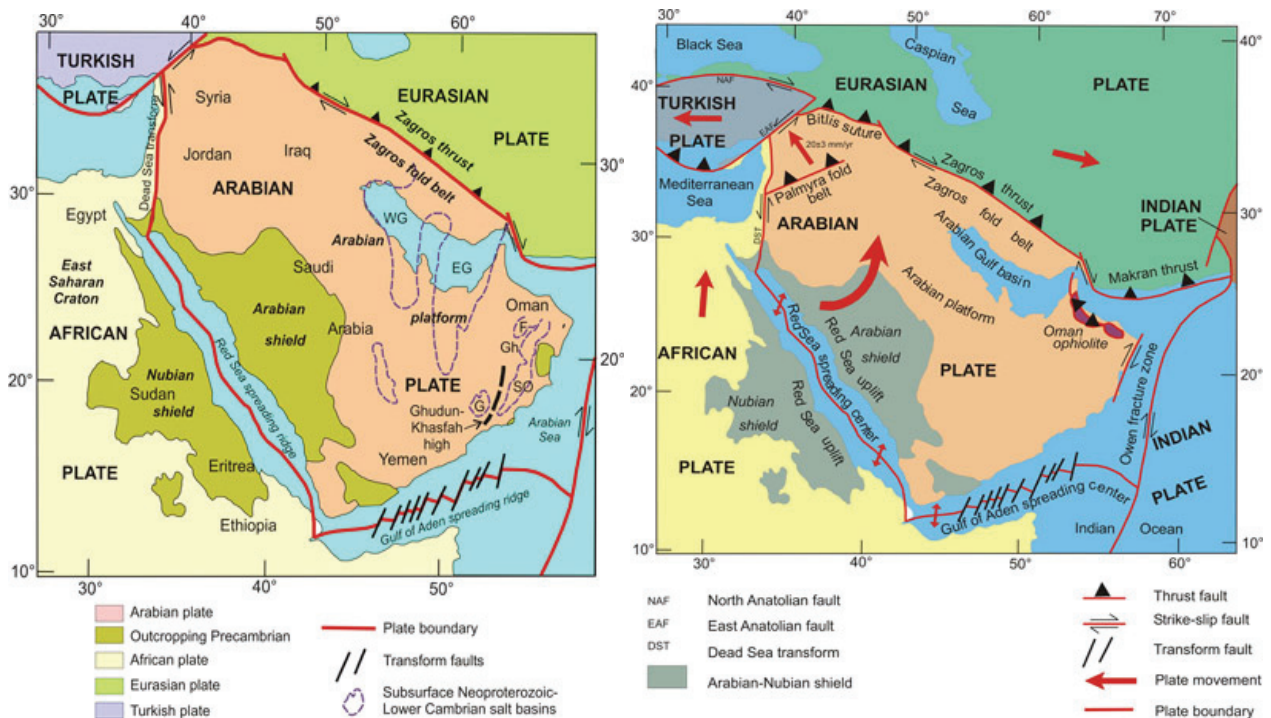
Why Ethiopia?

The northern part of Ethiopia, where Stratex will operate, is located within the southern extension of the Arabian-Nubian Shield (ANS). Potential exists in the ANS for a wide variety of mineral deposits, including volcanogenic massive sulphide (VMS), mesothermal lode gold quartz veins, intrusion-hosted mineralisation, skarn, and epithermal-type mineralisation.

Due to tectonic activity uplifting the shield, much of the more recent rocks have been eroded exposing deeper crustal rocks, thus providing the potential for a wide variety of mineral deposits to be discovered. The area's potential is supported by the discovery of major economic deposits such as:

- Nevsun's Bisha VMS deposit in Eritrea (1.61 M oz Au; 35.61 M oz Ag; 456,314 tonnes Cu; and 887,227 tonnes Zn).
- Sunridge's Asmara VMS in Eritrea (955,000 oz Au; 31.2 M oz Ag; 580,598 tonnes Cu; 1,133,981 tonnes Zn).
- Centamin's intrusion-hosted Sukari gold deposit in Egypt (12.9 Moz Au – open at depth and along strike).
- MIDROC's Legadembi gold deposit in southern Ethiopia (average production of 113,000 oz Au per year in the period 2000 to 2005).

Tectonic setting and areas of outcropping Precambrian rocks in the Nubian and Arabian shield



Source: Saudi Geological Survey

Stratex's management is experienced in several different areas of the Arabian Nubian Shield including Egypt, Sudan, Eritrea, Yemen, and Saudi Arabia. After visiting Ethiopia and walking the ground, Stratex believes that Ethiopia offers greater opportunities for rapid low cost discovery than elsewhere in the shield and is not subject to many of the economic and political constraints to which neighbouring countries are exposed.

The Ethiopian government wants to develop the minerals industry and offers full repatriation of profits, no custom duties and taxes on equipment, machinery, vehicles and spare parts with carry forward on losses for 10 years as well as a corporate tax rate of 35% and royalty rates of 2-5%.

There is currently an operating gold mine at Lege Dembi (113,000 oz pa) owned by Saudi controlled MIDROC Ethiopia (MIDROC) and an operating tantalum mine in Adola (60 tonnes pa). Ethiopia is also beginning to attract the attention of a number of both major and junior companies. In July 2008, BHP Billiton was granted a potash-prospecting licence for a 17,000 square-kilometre area in northern Ethiopia and recently Dwyka Resources (AIM: DWY) took over Minerva Resources plc for its Tulu Kapi gold project and Yubdo platinum project in western Ethiopia. Dwyka expects to produce a JORC resource for Tulu Kapi later this year.

Why Sheba?

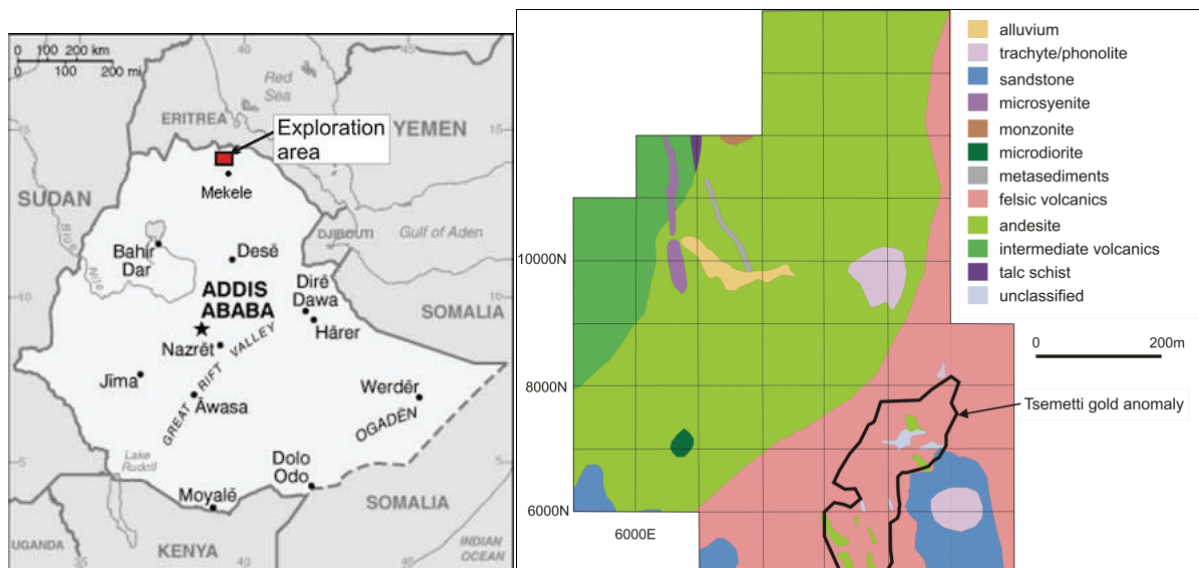
Sheba's subsidiary has been exploring in Ethiopia for the past ten years during which time it has discovered or developed a varied portfolio of gold and copper prospects on its Mereto, Shehagne, Una Deriam, Winibo, Finarwa and Dongwar concession areas. The company's strategic aim is to make new discoveries in previously unknown areas based on effective low-cost prospecting techniques, involving a high level of ground coverage and soil/rock sampling.

Like many exploration companies, Sheba has found it difficult to raise capital in the current environment although the same environment has provided an opportunity for Stratex given its stronger cash position. As well as the cash injection, Sheba will also benefit from the Stratex management's experience and knowledge.

Shehagne Project Overview

The 50 sq km Shehagne EEL is located in a highly prospective area near the town of Adwa in northern Ethiopia. The area was selected as a virgin target back in 2004, based on gold showings in river sediments many kilometres downstream. Sheba carried out basic prospecting work in 2005, followed by more detailed surface exploration in 2006 and 2007.

Location of Shehagne Exploration Area and the geology of the Shehagne project



Source: Company

The Tsemmetti prospect

Extensive gold anomalies were identified from soil samples by Sheba. The company has been targeting the Tsemmetti prospect in the northern part of the EEL where it has defined a large >100 ppb gold-in-soil anomaly over a three kilometre strike length and over a 300m width.

Sheba took surface bedrock samples from Tsemmetti, which showed some high gold grades in quartz veins and in alteration haloes in the surrounding bedrock. The average grade from the 99 samples was 3.2 g/t gold, with no cut-off applied. A trench was dug at the south end of the anomaly (Hadush Adi) and returned 2 metres at 5.1 g/t and 1 metre at 1.1 g/t, while trenches dug at the north end (Tsemmetti) in 2007 provided a best intersection of 4.3 g/t over 14 metres.

Sheba followed this up with reconnaissance percussion drilling, which has returned results including:

- Hole 1 - 0 to 12 metres grading 1.14 g/t Au
- Hole 3 – 0 to 23 metres grading 0.54 g/t Au
- Hole 4 – 0 to 19 metres grading 0.62 g/t Au

These holes were only able to be drilled to vertical depths of 40 - 52 m due to the location of the drill sites being restricted by Sheba's limited funds for drill road construction. The results from the three drill holes analysed showed gold and sulphide mineralisation over a vertical range of 45 metres and a horizontal direction of 340 metres, open in all directions. There appears to be multiple fine quartz veins in a conjugate fracture zone with one vein set predominating, suggesting that the gold mineralisation occurs within a large stockwork.

In June 2009, Sheba carried out channel sampling at Hadush Adi, towards the south end of gold soil anomaly. Continuous chip samples were taken from fresh bedrock exposed in stream beds in order to precisely locate the source and style of gold mineralisation. The sampling indicated that the gold mineralisation occurs within numerous quartz vein swarms cutting across the felsic volcanic bedrock, which show silica alteration and underlies the soil anomaly. The gold mineralisation extends into the bedrock around the veins and is associated with a brown alteration zone which is typically up to six times the width of the quartz veins. The quartz vein swarms themselves commonly extend 10-20m across strike and follow steeply dipping brittle fractures. Using a cut-off of 0.1 g/t, the average gold intersection from 33 channel samples was 2.2 g/t over 0.6 metres. The best gold intersection was 15.1 g/t over 0.9 metres.

The size of the anomaly suggests that the potential gold resource may be large and near surface, making it amenable to a low cost open pit mine if economic.

Other Developments

Teck Releases Option in Exchange for Equity

On 30 March 2009, Stratex announced that Teck Resources had opted to relinquish its option at Stratex's Konya project. Stratex has now signed an agreement for Teck to relinquish its earn-in on the remaining Stratex projects of Altunhisar, Başdere, Hasançebeli, Karapınar and Şehitler.

In exchange, Teck will be issued with 15,222,481 new ordinary shares in Stratex to be issued at 2.64p. This increases Teck's interest to 35,727,487 shares, representing a 14.3% holding in Stratex.

Teck will also have the right to a sliding-scale royalty up to a maximum of 1.5% on the first two of these projects that are put into production. However, newly generated or acquired projects will not be subject to any interest by Teck.

Although dilutive, the deal will allow Stratex to attract and secure more JV agreements similar to the one it secured with Centerra, a scenario that was impossible whilst Teck retained an option over the projects.

Valuation

We have revised our valuation of Stratex to take into account the new shares issued to Teck. This increases the number of shares in issue to 249 million. As before, we have included no value for any of Stratex's other projects, including the additional projects surrounding Inlice in the Konya belt. We have also included no value to the Sheba JVs other than the 5.3 million shares that Stratex hold in Sheba. However, we have also not reduced Stratex's cash position to allow for the proposed expenditure at Shehagne or allowed for the US\$1.0 million it will receive when NTF sign the definitive agreement. As outlined in detail below, our sum of the parts valuation is £20.0 million, equivalent to 8.0p per share.

Sum of the parts valuation of Stratex

Component	Project	Value (£m)	Value Per Share (p)
NTF JV	Inlice (45 % of NPV 10%)	£3.99m	1.60p
	Altintepe (45% of NPV 10%)	£11.58m	4.64p
Centerra JV	Oksut	£1.82m	0.73p
Investments	Sheba Exploration	£0.04m	0.02p
Cash		£2.56m	1.03p
Total		£20.00m	8.02p

Source: HW estimates and company

Conclusion

Stratex is an experienced and successful exploration company with an enviable reputation as an efficient low cost gold explorer. We believe that the company's very strong track record of having discovered 59oz of gold for every metre drilled speaks for itself. Although slow to monetise its projects in the past whilst continuing to explore for a large company maker, Stratex has realised that with its new JV agreements in Turkey, it does not need to make a 1M oz+ discovery to create value for shareholders. In particular, we would highlight the formation of a joint-venture mining company with Turkish partner NTF that could well see first gold production within 18 months and a commitment to growing that company's productivity in subsequent years.

Ethiopia is a highly prospective and largely under explored country, primarily due to the changing political and economic problems that have afflicted the region in the past. This appears to have changed for the best, as perhaps demonstrated by BHP Billiton's interest in the country's enormous potash resources. Sheba has been operating in the country for over ten years but has found it difficult to attract investment. However, Stratex appears comfortable working in the region and Shehagne provides a great opportunity for Stratex to continue its success in drilling and add value for shareholders.

Our 8p valuation represents a substantial premium to the current share price and thus we maintain our **BUY** recommendation on Stratex.

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