

MINING RESEARCH

Stratex International

4.0p

A New Gold Frontier

1 December 2009

Stratex has discovered a significant new gold province in the Afar Region of Ethiopia. This represents the first epithermal gold mineralisation to be discovered in Ethiopia. The low-sulphidation Megenta discovery covers an area of over 5km² although Stratex has secured a three year 1,579km² Exclusive Exploration Licence (EEL) over three areas, including Megenta. Although early stage, Stratex will be looking for a massive near-surface low-grade gold and silver target and/or a bonanza grade target in the brecciated feeder structure below the overlying sinter, similar to those found in Nevada. This would be of interest to a major mining company and given Stratex's success in forming JVs over the past six months, we would not be surprised if it followed the same route at Megenta. Although we reduce our target price slightly to 8.3p per share, due to a stronger US\$ exchange rate, we maintain our **BUY** recommendation.

Bull points

- Significant new gold province discovered in Ethiopia
- Low-sulphidation epithermal system
- Potential for massive low grade gold deposit similar to Hycroft in Nevada (5 Moz at 0.4 g/t Au)
- Potential for high bonanza grade target at depth similar to Sleeper, Nevada (>50g/t) or Hishikari, Japan (70 g/t Au)
- EEL secured for three years covering 1,579km²

Bear points

- Very early stage

Stratex valuation

Component	Project	Value (£m)	Per Share (p)
NTF JV	Inlice (45% of NPV 10%)	3.99	1.60
	Altintepe (45% of NPV 10%)	11.59	4.64
Centerra JV	Oksut	1.82	0.73
Teck JV	Hasançelebi	1.17	0.47
Investments	Sheba Exploration	0.09	0.04
Cash		2.10	0.84
Total		£20.77m	8.32p

BUY

ANALYST

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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

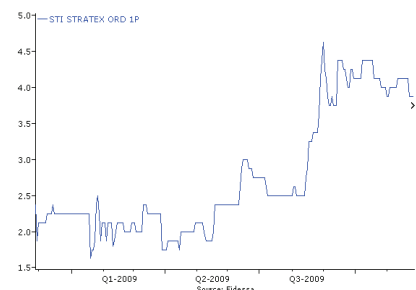
Ticker	STI
Listing	AIM
No. of shares	249.46m
Market cap.	£9.35m
Enterprise value	£7.25m

SHAREHOLDERS Holding (%)

Teck Limited	14.32
Kairos Inv M'tment Ltd	13.59
Orion Trust Ltd	10.36
Nick Graham	9.22
David Hall	5.02
Cenkos CI Nominees	3.89

*As at 30 September 2009

12M SHARE PRICE PERFORMANCE



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

A brand new discovery

Stratex has discovered a new metallogenic province in Ethiopia that has the potential to host a low-grade but bulk tonnage gold deposit. This is the first outcropping epithermal gold mineralisation discovered in Ethiopia and exhibits low sulphidation alteration and mineralisation over a 5km² area.

How was Megenta discovered?

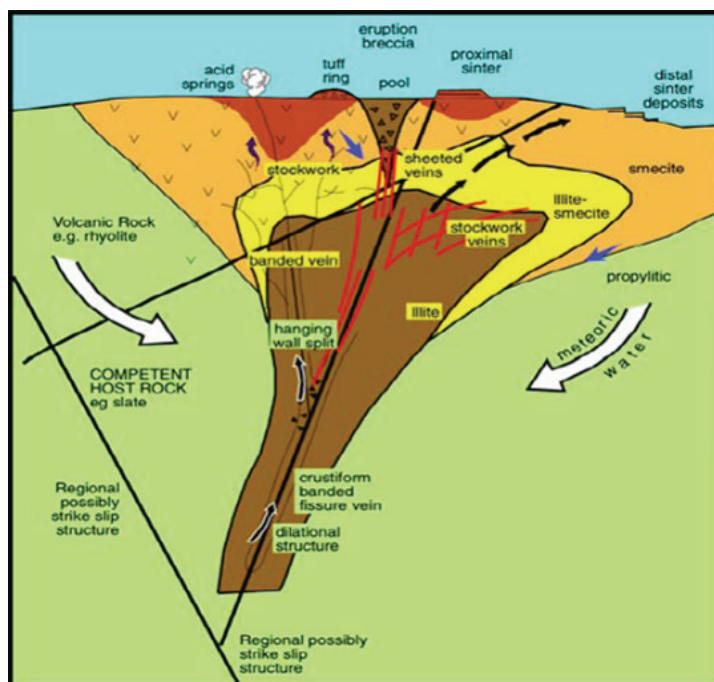
Stratex started looking at the potential for low-sulphidation bonanza gold deposits two years ago with the assistance of independent consultant Dr. Richard Sillitoe. Ethiopia was targeted before Stratex entered into its JV with Sheba Exploration (PLUS: SHE), based on the geothermal literature, known geology and studying landsat images.

The mineralisation was identified during regional work undertaken in October 2009 by Stratex Chairman David Hall and senior geologist Dan James. They found structures at surface along which the mineralised fluid flowed through the system ("feeder structures"). First grab samples from these structures all contained gold, with values of 0.328 g/t, 0.218 g/t, 0.132 g/t and 0.126 g/t Au. These grades although apparently low, are highly significant as these feeder structures are very high up in the mineralised system where gold is normally negligible and suggests much higher grades could be found deeper in the structure.

What is a Low-Sulphidation Epithermal System?

Epithermal systems are formed close to surface by low-temperature fluids. Low- and high-sulphidation does not refer to the amount of sulphur present in the deposit, rather to the ratio of sulphur to metal it contains. In low-sulphidation systems, the hydrothermal fluids mix with greater amounts of ground (meteoric) water as they rise from the hot magma chamber. These mixed fluids interact with the surrounding rock and dissolve silica. Higher in the system, the silica is then deposited as crystalline quartz within the feeder structure, blocking it and causing fluid pressure beneath the blockage to build.

Schematic of a low sulphidation epithermal gold deposit showing the interaction of meteoric water with the rising hydrothermal fluids.



Source: Corbett, 2004

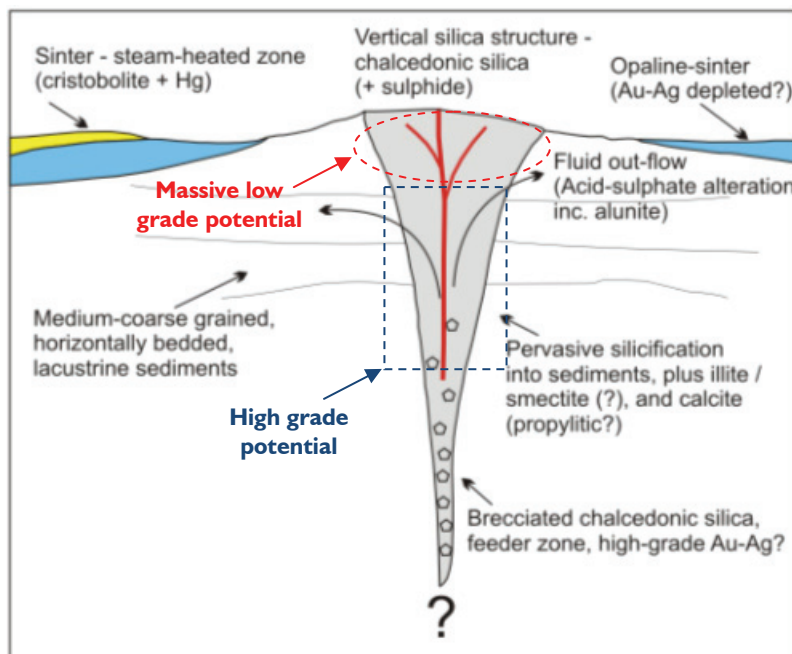
Eventually the pressure reaches a critical level and blasts through the quartz sealing the feeder structure, creating extensive brecciation and resulting in a sudden drop in fluid pressure. This drop in pressure causes the fluids to boil, during which volatile gases, such as CO₂ are lost. This changes the chemistry of the fluids and gold is rapidly precipitated. This cycle of feeder blockage, eventual pressure-driven rupturing and gold precipitation is commonly repeated many times, resulting in the deposition of high-grade (bonanza) gold and silver over a vertical interval of a few hundred metres within the feeder structure. Eventually these fluids reach the surface where they often occur as hot springs.

A chalcedonic silica vein (feeder structures) at Megenta



Source: Company

Interpretation of the feeder zone at Megenta showing the underlying hydrothermal system and potential massive low grade and/or high grade Au and Ag



Source: Company

What has Stratex found so far?

At the surface, Stratex discovered high-level steam-heated sinter (silica deposited at the surface from a hot spring). This normally occurs at the very top of the mineralised system and suggests that the entire system is likely to be intact and preserved below the sinter. Directly beneath the sinter, Stratex found opaline and chalcedonic silica (micro-crystalline quartz) containing anomalous levels of gold (up to 57 ppb).

A number of feeder structures composed of fine chalcedonic silica veins containing gold were discovered. Anomalous concentrations of arsenic, mercury, selenium and thallium were also identified and are typical of the trace element suite associated with this style of mineralisation.

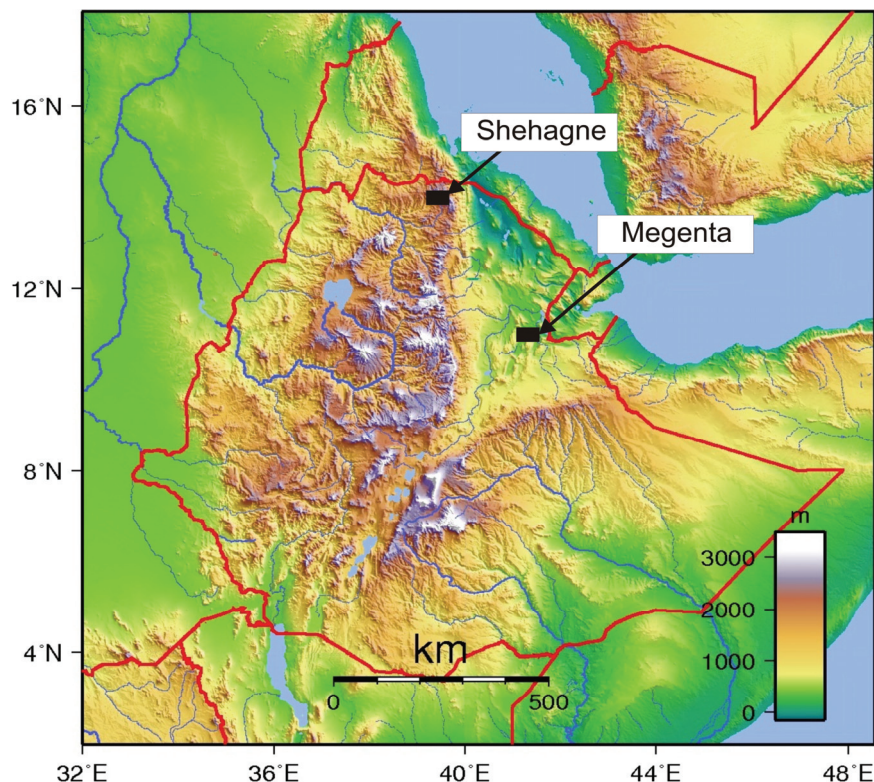
The feeder structures occur within Pleistocene age lake sediments that have been intensely silicified and mineralised with hematite adjacent to the vein structures. The feeder structures can be traced up to 500 metres along strike and the area of silicified and hematitic sediments extends as far as 300 metres away from the veins. The alteration has been defined in three zones over a strike length of five kilometres.

Why is this discovery significant?

Stratex conceived the original programme in association with leading independent economic geologist, Dr. Richard Sillitoe, who wrote the article “Rifting, Bimodal Volcanism and Bonanza Gold Veins” in 2002. The rifting environment of western Nevada with bimodal volcanics was used as model for this setting. The Main Ethiopian Rift shares many characteristics with this environment, including intracontinental rifting and bimodal (rhyolite and basalt) volcanism. The high-level preservation at Megenta is also similar to shallow exposure levels and near-paleosurface features observed in Nevada.

As a result, Stratex considers the near-surface parts of the Megenta prospect to have potential for a large shallow low-grade bulk potential similar to the Hycroft Mine in western Nevada. This has produced 1.2 Moz to date and has a remaining resource of 5Moz at 0.4 g/t.

The Megenta project is to the south east of Stratex’s existing project with Sheba at Shehagne in the Afar Region of eastern Ethiopia, close to the border with the Republic of Djibouti.



Source: Company

In addition, Stratex will be investigating the potential for bonanza gold veins beneath the high-level sinters. An example of this type of project is the low-sulphidation Sleeper Mine in western Nevada which produced 1.66 Moz from veins grading greater than 15 g/t Au.

What next?

Megenta lies in the east of Ethiopia and covers an area of approximately 5km². Stratex has secured an Exclusive Exploration Licence (EEL) for a large area around the Megenta discovery and will be implementing a programme of geological mapping and rock channel sampling. The intention of this is to prioritise drill targets as rapidly as possible. Whilst this is being done, further regional exploration on other identified areas of alteration will also be carried out. The EEL is valid for three years and covers three separate areas totalling 1,579km². Stratex has submitted a work programme to support the application and there are no financial commitments with respect to the EEL.

Stratex is significantly undervalued

The Megenta project and surrounding area is still at very early stage and we believe that it is too early to attribute a realistic value. However, we believe it is a significant step forward for the company and given the potential, we believe that it would be of great interest to a major mining company. With Stratex's success in forming JVs over the past six months, we would not be surprised if it followed this route at Megenta.

However, in terms of our current valuation, we have included no value for Megenta at this stage or for any of Stratex's other exploration 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 holds in Sheba.

Sum of the parts valuation of Stratex

Component	Project	Value (£m)	Value Per Share (p)
NTF JV	Inlice (45% of NPV 10%)	3.99	1.60
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Investments	Sheba Exploration	0.09	0.04
Cash		2.10	0.84
Total		£20.77m	8.32p

Source: Westhouse estimates and company

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 £20.77 million, equivalent to 8.32p per share. Consequently, we maintain our **BUY** recommendation with a target price of 8.3p per share.

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- HOLD:** 25%
- SELL:** 8%

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